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Rhetoric and Practice of Strategic Reward Management

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Publisher’s note

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Preface

For questionable it might be considered to be the impact that reward actually has on employee motivation, reward management has had, has and is destined to further gain a constantly growing importance for HRM practices as a whole. Employees' different needs and expectations are remarkably influenced by the ever-changing external context and subject to vary accordingly; this prompts in turn employers to constantly come up with brand new, appealing solutions capable of attracting and retaining quality people.

The declining power of Trade Unions, in terms of bargaining with employers employees' salaries at industry or national level, has favoured a process according to which employers are acquiring sole responsibility for designing and developing reward management practices and policies within their organizations.

Indeed, also the concept and aim of reward management has evolved over the years. At large, preserving individuals' purchasing power is no longer considered as a reward management top priority, but rather knowing-doing gap notwithstanding, as a means to ultimately enable businesses to align their objectives with those of their staff. Employers and reward specialists task is definitely far from being straightforward, exogenous forces are constantly influencing individuals and employers expectations as well so that, in some circumstances, namely during economic slowdown and downturn periods, employees need for their salaries holding on, in terms of purchasing power, can absolutely re-emerge as a top priority.

Reward management evolution has developed a new idea of reward no longer directly and exclusively associated with financial reward, but rather based on a far more comprehensive concept embracing both financial and non-financial forms of reward and recognition, namely total reward.

Designing and implementing sound, bespoke reward management strategies and effectively and consistently implement these by means of fair policies within an organization definitely is a difficult feat to achieve. This book humbly aims at helping all of those who believe that reward practices have and will invariably have an important role within HRM policies, to take informed decisions considering that a good and overarching knowledge of theories and rhetoric can definitely, effectually contribute to the attainment of remarkable results in practise. This work is clearly not exclusively theory-based, particular and relevant consideration has in fact also been given to findings of relevant surveys, as well as to practitioners and consultants points of view.

The book also endeavours to make readers pondering about some specific crucial aspects of reward and its future, which very likely entails that reward specialists become the more and more acquainted with tax legislation and innovative in order to be able to design and develop sound and effective cutting-edge reward management practices and solutions.

PART ONE

Key concepts and founding pillars

Section I
Reward Management

The foundations of Reward Management

Reward management should basically aim at influencing people actions and behaviour in order to organizations attaining their overall business objectives and aims. This target is much more likely to be achieved by aligning individual objectives with organizational objectives (Daniels et al, 2006). It can consequently be said that reward management is essentially concerned with all of the complementary initiatives, actions and activities designed and implemented by employers in order them to receive their staff full support for the achievement of organizational strategy.

It clearly emerges that reward management cannot be considered, developed and managed independently of the other HRM practices, business strategy and organizational culture. On the contrary, reward management should be used by employers as an additional powerful system by means of which not only more easily achieving their intended objectives, but also fostering integrity and endorsing desired behaviour within the organization. These objectives are quite hard to achieve, but the successful identification, development and execution of the right approach can undoubtedly help employers to attain organizational success.

Since reward management is also concerned with organizations' strategy, it also needs to be in turn strategic and constantly fitting the changing business circumstances. Irrespectively of the causes behind these, changes within organizations are occurring at a faster and faster pace, and reward specialists need to be ready to adapt reward approaches, systems and schemes to the changes required from the exogenous and endogenous environment as well.

Reward management is then concerned not only with design and execution but also with the maintenance of the system, that is, the regular review of the practices, policies and procedures of which it is formed (Armstrong, 2010).

Organizations recruit and reward people "not for their ability to follow instructions" but for their expertise (Bersin, 2012), capabilities and skills and for the results these can yield and the contribution they can make to organizational success. This idea entails that people cannot consider their working experience fulfilling whether, in addition to financial reward, they would not receive other forms of recognition. To this extent research has broadly shown that individuals are motivated by their job if they are made aware of its worthiness and meaningfulness, especially if their job is openly acknowledged by employers as contributing to the attainment of organizational objectives. Reward management needs to duly take into consideration this aspect and in addition to financial reward needs, hence, to provide individuals access to and opportunity for personal and professional growth, development, learning, participation, training, involvement, job design, work-life balance and all of those initiatives and activities making employees' day-to-day working experience more involving and gratifying.

The importance of a consistent and bespoke Reward Management approach in an ever changing world

Businesses' activities, cultures and strategies are nowadays the more and more influenced by the ever-increasing speed at which changes occur in the external environment. The international business scene tends to be increasingly dominated by concepts like globalisation. Modern means of transportation have practically contributed to remove most of the barriers to international exchange and trade, remarkably contributing to the creation of the so called Global Village, ultimately making markets geographical limits the more and more blurred.

However, this does not mean that all the places are the same, as well as are not the people living in the different geographical regions. Indeed, every country has its own culture which people essentially tend to preserve and, most importantly, individuals are different, very often even sensibly different, one another. Differences in needs, expectations and behaviour can in fact clearly be identified amongst people within every organization, department, unit or even office of every business. Yet, individuals' needs and expectations are very likely to change over time, making even harder sometimes for employers understanding people feeling and perceptions of the reward packages they offer.

Employers need to be aware of these differences, and need to take them into duly consideration when designing, developing and implementing their HRM practices. People are different one another so that in order to develop the right policies and practices, employers should previously acquire a thorough and deep understanding of people needs and expectations. But this is not enough, in doing so employers should also duly consider the importance of the psychological contract and do everything they can in order to avoid that individuals could ever perceive that they have breached it.

The one-size-fits-all approach is never likely to work when applied to people. Employers and reward specialists as well have then to be cautious and wary about introducing and implementing within an organization a given approach only because it has revealed to be effective and suitable elsewhere. HRM and reward practices have instead to be designed and developed on the basis of the circumstances in order to meet the different, specific needs and have to be regularly assessed and reviewed in order to take account of the eventually changed circumstances.

In order to develop a healthy workplace, where individuals can feel comfortable and valued and perceive their work as meaningful, employers need to know, understand and meet their staff expectations. Employers also have to do whatever they can to make people feel that the activities they perform and the results they produce are valuable both for the organization and themselves; respecting, preserving and to some extent nurturing differences amongst individuals. Diversity is a value that every organization should be able to acknowledge, understand and foster; a value which should be embedded in every organization's culture in that likely to favour innovation and creativity.

The circumstance that people are different, have different needs and expectations and that these different needs and expectations are also subject to change over time clearly also has to be duly considered by employers in terms of reward management. In that it is crucial that the awards offered to employees have to be considered and perceived as valuable by these, differently all of the effort and resources deployed by employers should merely represent a massive waste which, in some circumstances, could even produce undesirable drawbacks.

Best practice or best fit

Over the years, different Authors have provided several definitions of "best practice" and "best fit"; overlaps between the two definitions notwithstanding, it is rather straightforward identifying the differences between the two approaches also when these are applied to reward management. At large, it can be said that proponents of the best practice approach believe that organizations can achieve competitive edge having recourse to pre-identified practices which can invariably be applied in whatever, and irrespective of, the circumstances; whereas the best fit approach is essentially based and developed on the underpinning idea that what is best actually depends on the circumstances. The idea of best practice is hence based on "universality", whereas that of best fit on "contingency."

The best practice concept is underpinned by the idea that the "bundling" approach represents the only method enabling employers to achieve improved organizational performance. It is in fact only by means of the combined effect of HRM practices, and reward practice amongst them, that organizations can achieve the desired level of performance. Practices in general include: recruitment and selection, training, employee voice and involvement, job security and competitive reward schemes (Pferrer, 1998 and Huselid, 1995). Indeed, it is not having recourse to the bundling approach in itself which has attracted so much criticism to the best practice approach, but rather the universalistic connotation attributed to it by the best practice advocates. The final result produced by a series of combined, simultaneous initiatives in fact is likely to be much more effective and remarkable than that produced by a limited plan of action, but these actions need to be identified, designed and planned according to the circumstances.

According to this approach, additionally, employees' duty would not just be that to help employers achieving their intended strategy; on the contrary, thanks to the combined effect of all of the practices existing within an organization, will be the "superior human resources" recruited by the organization who will influence and determine organizations' strategy (Milkovich and Newman, 2002). This would practically account for reversing the process in that, according to this idea, policies would precede strategies (Morris and Maloney, 2005). What also strikes about this specific aspect is that businesses would practically be delegated to the valuable managers recruited by means of the best practices (in this case recruitment practices) put in place by the employers, whereas strategy definition should invariably rest with companies' business boards and shareholders. To this extent, this approach is questionable at best in that excellent and talented staff can clearly help employers in the process, especially in the execution phase, but deciding an organization's direction should always be an employer prerogative and should invariably rest with this.

Nonetheless, the most relevant aspect associated with this approach is that, according to its proponents, businesses can invariably achieve increased organizational performance by means of the same bundle of HR practices, whereas divergences amongst advocates of this approach remain just for secondary details (Torrington et al, 2008).

The best fit concept is, on the contrary, underpinned by the idea that, in order to enable employers to achieve competitive edge and hence their intended strategy, HR and reward practices need to be developed according to the circumstances. This objective will be attained by aligning HRM and reward strategy with the overall business strategy, from which all of an organization's practices flow, and that is why models fitting reward management are also known as "matching models" (Sparrow and Hiltrop, 1994). Advocates of this approach consider business strategy as the engine and guide of all of the business activities (Lawler, 1995), so that it can ultimately be defined as the "touchstone for the development of reward strategy" (Morris and Maloney, 2005).

Despite the two approaches are underpinned by completely different ideas, some common ground can be identified. Supporters of the two approaches in fact broadly agree on the fact that reward management needs to support HR strategy, as well as organizational strategy, culture and structure. Yet, both approaches also recognise the pivotal role played by effective reward practices to enable employers to attract and retain quality staff (Morris and Maloney, 2005).

Common grounds notwithstanding, the differences between the two approaches definitely prevail. Although both best practice and best fit approaches foster and support fair reward practices, views about how to attain this common objective in practice sensibly differ. Whilst best practice advocates support reward systems based on *equality*, best fit proponents support systems based on *equity*. More in particular, according to the best practice approach employers, in order to foster "collegiality and cooperation", should offer individuals performing the same activities the same reward package (Morris and Maloney, 2005). Pfeffer (1998), who strongly supports the idea that people should not be rewarded according to their performance and the outcome they produce, delivering a speech at a Toyota Motor plant in the US averred that people carrying out the same job should receive the same salary, in that this approach is the most likely to foster cooperation and team working. In contrast, best fit advocates foster reward practices based, and hence differentiated, according to the contribution provided by each individual to the organization performance (Morris and Maloney, 2005). Employers should then design and develop reward practices aiming to establish a clear "line of sight" between employees' behaviour and the reward packages they receive (Lawler, 1995).

The different conclusion to which each approach comes to is actually depending on, and directly associated with, the motivational theory put at the basis of the two different methods by their proponents. In general, best practice advocates rely on content theory and, more in particular, on Herzberg's two-factor theory (1957, 1968) and consequently consider money exclusively as a hygiene factor. They also claim that employees are motivated by meaningful jobs and opportunities for personal and professional growth and uphold that reward packages based on higher portions of fixed salary contribute to reinforce individuals' idea that they are valued by their employers (Morris and Maloney, 2005) and that they are fairly paid. On the other hand of it, supporters of the best fit approach developed the founding idea of their method on the basis of the expectancy theory. Therefore, for a successful implementation of an effective and consistent reward system, the existence of a link between pay and performance should be first and foremost clear and visible. Yet, this clear relationship also needs to be reinforced by a "climate of trust and credibility" (Lawler, 1981). The existence of these circumstances can contribute to satisfy individual perceptions that the *expectancy* and *instrumentality* elements of the expectancy theory are met. Indeed, also the third requirement of the expectancy theory, that is, *valence* needs to be met. In order to satisfy individuals' expectations in terms of the value and importance each person associates with the outcome of his/her activities, therefore, a direct and discernible "line of sight" needs to be established between the outcome produced by individuals' actions and the consistent, relevant financial reward which is offered to them (Lawler, 1995).

Without a doubt, in an ever changing world where external factors are constantly impacting and influencing organizations' strategy and culture, the best fit approach has to be considered preferable to the best practice one. This makes even more sense if we consider that businesses are nowadays constantly struggling in markets dominated by a harsh and constantly increasing competition. Reward management practices need to constantly support employers in their quest and constantly be adapted to the changing circumstances in order to effectively support businesses in attracting and retaining the individuals they need to keep pace with the ever-changing, competitive business world.

In order to effectively accomplish these tasks reward practices absolutely need to be aligned with both organizational strategy and culture. But this is not actually all, sound and appropriate reward management practices cannot be designed and developed irrespectively of all of the main aspects and features characterising an organization such as: size, management style, structure, the kind of people employed and the technology used (Armstrong et al, 2010). Proponents of the best fit approach also suggest that, in addition to these factors, employers should also consider the key elements linked to the product market strategy they are aiming to pursue and the relevant labour markets' features (Torrington et al, 2008). Low cost organizations will clearly aim at developing practices based on cost containment and minimization, whereas organizations aiming to differentiate their offer will develop high performing work system privileging innovation and expertise. So that, for instance, a small business aiming to gain competitive advantage by means of cutting-edge, superior products and competing in a tight labour market will most likely have recourse to "sophisticated human resource practices" whilst offering informal working place, whereas large low-cost organizations will adopt more bureaucratic approaches and HR practices based on cost minimization (Torrington et al, 2008).

The alignment of reward management practices within organizations should be overarching or, to put it another way, reward practices should be consistent and aligned both with the other management practices – vertical alignment – and with the other HR practices – horizontal alignment (Wright and McMahan, 1992). This will, in turn, ensure that all of the practices within an organization will support one another and will be perceived by staff as coherent, ultimately contributing to foster integrity within the organization.

For definitely preferable the best fit approach is, it is not, however, completely immune from problems. Reward practices design and development phases cannot in fact be managed as exclusively contextual-driven processes. Even though contingent and depending on the circumstances, these policies also need to be developed according to conscious and conscientiously made choices and decisions (Paauwe, 2004). Additionally, reward policies as well as all of the HRM practices, also need "to fit with social legitimacy goals" (Boxall, Purcell and Wright, 2007).

But one important aspect which definitely deserves to be duly considered is that it is not always possible being able to adapt all of the contingent variables of HR and reward management to business strategy needs and being able to thoroughly take into consideration the knock-on effect that a change in a variable can have on the others (Purcell, 1999).

Best fit approaches do not need to subserviently be introduced; reward specialists must actively and constructively contribute to reward strategies and practices design and development. In the event they should identify some anomalies in terms of viability and implementation or, more in general, some inconsistencies or difficulties on supporting organizational strategy by means of reward practices, it is reward specialists' precise duty submitting to the attention of businesses leaders their doubts and concerns. This not necessarily means altering the main aim and objectives that organizational strategy intends to attain, but just provide feedback for eventually introducing the adjustments which might be necessary in order to avoid, at best, time and resource wastage and, at worst, serious detriment to the organization stability and steadiness.

In order to make strategic decisions, business leaders clearly need to gather as many information as they can, in that, the different existing circumstances can actually account for them to reach different conclusions. In order to take sound and appropriate decisions, employers need to consider and focus on the endogenous as well as on the exogenous environment whose contingent features clearly play a pivotal role in their decision making process.

It can finally be agreed with Dyer and Holder (1998) that "The inescapable conclusion is that what is best depends."

Reward management in context

In order to effectively adopt the best fit approach, employers should previously gain a thorough, overarching understanding and knowledge of the context in which their business operates. An in depth and extensive knowledge of both the internal and external environment is, indeed, of paramount importance regardless of the particular approach to reward management an employer might intend to pursue; irrespective of the circumstances, extra care definitely needs, by extension, invariably to be taken with this aspect.

The influence of the internal context
Within the internal environment can be identified several factors differently influencing reward management practices and policies.

Organizational Strategy and Culture
Organizational strategy and culture clearly have a predominant importance and influence over the identification of the reward management practices which have to be developed and implemented within an organization. Broadly speaking, it can be said that to this respect one of the most important aims to pursue is, more in particularly, represented by the attainment of consistency.

Whereas strategy is concerned with the direction an organization wants to go to, organizational culture is mainly associated with the values, the behaviour and the way things are done within a business. Organizational culture should support the business in the achievement of its intended objectives but, in practice, this does not always occur and sometimes culture can even hinder employers in their efforts to achieve their intended aims and objectives. Reward management practices have a pivotal role on fostering those behaviour which are considered consistent and coherent with organizational strategy attainment and need to be supportive of both corporate culture and strategy in order to ultimately enable employers to achieve their intended aims and, in turn, competitive edge.

The business industry and sector and the kind of work
From the collective perspective, it can be said that the industry within which a business operates clearly has an impact on the reward practices which are, or should be, designed

within it. Undoubtedly, reward practices developed within a manufacturing organization will be rather different from those introduced in a banking or financial sector organization.

Even though in many respects differences between public and private sectors tend to reduce, it can be said that, in general, relevant differences between the two kinds of sectors still exist, as well as some peculiarities can also be identified within the voluntary sector. These typical features and attributes, not last for the usually different values and beliefs underpinning the cultures at the basis of each different sector, obviously can also have a considerable impact on the reward practices developed within an organization depending on the sector in which it operates.

Indeed, the different kinds of jobs performed within a business have a clear impact on reward management practices definition too, not last for the different degree to which different jobs' output can actually be measured. This aspect, for instance, can have a remarkable impact when considering the introduction of a performance-related pay scheme, whose effectiveness very much relies on objectives measurement. A manufacturing organization will most likely develop reward practices sensibly different from that introduced within a trading company; in that the former will most likely aim at rewarding individuals for the quantity and quality of their output, whereas the latter will most likely reward people for the volume of sales and quality of the customer service delivered.

Individual needs, expectations and differences

No reward management approach can be considered good or appropriate whether it is not fitting the circumstances and, most of all, if it is not practically meeting individuals' needs, expectations and differences. People, as discussed above, are different one another and differently value and appreciate things, and benefits and rewards make no exception. Reward management practices need to be hence developed in the light of these differences awareness. The lack of this knowledge, or neglecting the pivotal importance this aspect has, is very likely to cause organizations pointless, massive waste of money and resources. Employers need to know what their employees value and appreciate the most, so that efforts and resources can be better directed and focused on developing reward management practices aiming to meet these precise and well pre-identified expectations.

As suggested by Armstrong (2010), reward practices need to ultimately be segmented in order to meet the different individual needs.

Can SWOT analysis help?

Regularly carrying out a SWOT analysis, concerned with the constant assessment and re-evaluation of the reward practices put in place within an organization, can actually reveal to be an important and effective method to ensure maintaining practices consistent and adequate to the changing circumstances.

The identification of the strengths and weaknesses of the reward practices and packages developed within a business, and their constant review, can enable employers to monitor and change their offering according to the preferences expressed by individuals. In particular this tool, enabling employers to identify those elements of the reward packages they offer which appear to be mostly appreciated by their staff and those which, conversely, appear not to be so appreciated by individuals, can effectively help employers to improve the reward practices introduced and developed within their businesses. On the one hand in fact employers will be able to work further on those aspects which appear to be most effective and appreciated by their staff, whilst removing on the other hand those components perceived as negative by staff which, as such, could weaken and jeopardize the effectiveness of the overall reward practices put in place within the organization.

Another circumstance which deserves to be duly considered is that in many areas trade unions still have a remarkable impact on salary determination, often even at national level. In general, this can be considered as a clear threat to employers' autonomy to introduce the reward schemes which they deem to be the most effective and appropriate to the circumstances. Indeed, unions' presence and their salary bargaining power can also be seen as an opportunity by employers, which could determine with unions the methods and schemes to reward individuals which, once agreed with trade unions, should more likely be welcomed and seen as fair by staff.

In general, however, the role played by unions in salary negotiations is "limited" to the basic salary determination. Essentially, therefore, the decisions about variable pay will still rest with the employers. More often than not, unions tend to oppose the introduction of reward systems fostering salary increases exclusively based on individuals' performance, merit, contribution and/or competency in that the salary increases of the reward systems agreed with unions are normally granted on the mere base of individual length of service.

It can finally be said that, in order to have sound reward management practices in place, employers should constantly think over the likely options they could have recourse to in order to limit weaknesses and threats, build opportunities and improve the strengths of their reward practices. This process can clearly require some extra efforts and resources, but it is very likely that this hard work will in the end definitely pay off.

The influence of the external context

Also the external environment can actually both offer opportunities and pose serious threats to reward management practices makers, so that employers should take extra care with the ever-changing external environment and constantly be ready to promptly exploit opportunities and eventually circumvent the negative impact to which threats could give rise.

In order to develop and implement sound and effective reward practices, which will need however to be constantly assessed and reviewed, employers could have recourse to the classic PESTLE tool. For mundane it may apparently appear to be, this tool can actually, effectively enable employers to take and maintain, in a rather simple and overarching fashion, constant control of the external factors and developments which, if opportunely considered, can in turn enable them to always have the most appropriate and suitable practices in place. This tool can, very practically, help businesses to understand how the external environment changes and evolves and to what factors and circumstances those changes actually relate; which could in turn reveal to be useful for employers to better understand and interpret the outcomes provided by the internal investigations.

The Political and Legal aspects
The role played by the political and legal aspects over reward is the more and more relevant and, as such, the worthier and worthier to be constantly and appropriately considered and monitored.

Beyond the most visible and to some extent obvious, but not really negligible, minimum wages, where applicable, and equal pay legislations, employers should pay most of their attention to the tax and fiscal legislation. Indeed, employers and reward specialists need to become the more and more acquainted with this kind of legislation and hopefully tax savvy too in that, inasmuch as taxes are usually one of the main causes for employers headaches, it must be said that a thorough and deep understanding of these regulations could offer businesses good opportunities in terms of reward practices development and design.

In recent times, the role of regulations has also increasingly played a significant role in respect of pension schemes and the ability of organizations to provide employees with advice on pension-related subjects.

There also are other kinds of rules and regulations which, although mainly directed to regulate particular aspects of a business, can have a direct or indirect, but in any case relevant, impact on reward management. UK rules concerning the Transfer of Undertaking - Employment Protection (TUPE), for instance, providing for employees previously employed by the “transferor” to automatically become employees of the “transferee” at the same terms and conditions, with the exception of “certain occupational pensions rights”, clearly represent a good example of this (BIS, 2009).

The Economic factor
Both booming as well as gloomy economic periods definitely exert a relevant impact on reward management practices (Armstrong, 2010). In order to constantly meet individuals' expectations, employers need to be extremely careful and savvy on appropriately balancing basic salary and premiums and appropriately and wisely resort to flexible benefits packages according to the circumstances.

During downturn periods, individuals will more likely pay particular attention to financial reward and to those benefits which could help them to better face daily-life expenses and ultimately maintain as strong as possible their purchasing power. By contrast, during booming periods, individuals would very likely be mostly interested in the non-financial side of reward. Notwithstanding, it also very much depends on the different personal circumstances. In general, individuals with lower salaries will be more likely to pay attention to the financial component of their reward packages as long as they will not receive a salary enabling them to comfortably, or rather comfortably, pay their bills and amusements or, to put it another way, to attain an adequate standard of living.

Another example of economic factor having a remarkable impact on the reward practices developed within an organization is represented by the salary rates offered in the labour market at any given moment in time. Clearly, when developing reward management practices, employers aiming to offer competitive salary rates to their staff cannot neglect the relevance of the current trends and pay rates offered in the geographically relevant labour market (Armstrong, 2010), especially for those specific roles they might find particularly difficult to fill. Market pricing and market forces, hence, definitely represents important approaches to take into account in order to develop and maintain sound, appropriate and up-to-date reward management practices.

The Social factor

Local cultures as well as the trends dominating and prevailing across a region clearly also have a relevant impact over reward management practices design and development.

The social factor is often directly linked to the economic outlook characterising a particular area at a particular time. Consumer society stereotype and the cult of youthfulness and beauty, which usually impact individual's preferences, for instance, are likely to become insignificant during slowdown periods. Whereas during booming economic periods, individuals might find it preferable reward packages offering subsidised gym and beauty parlour treatments, these are likely to be perceived as less important during recession periods, when people could see a reduction of their variable pay rates and benefits.

Ageing population and the difficulties associated with the international economic landscape, which account for instilling a sense of instability and insecurity into individuals, also have an impact on individuals pension schemes needs. Whether, for instance, until just a few years ago individuals were likely to be more concerned about their pensions schemes' mechanism just in the final phase of their working life, this aspect is at the moment in time drawing individuals' interest and attention much earlier on in their working life, not last for the more and more invasive role played to this extent by national regulations.

The Technological factor

Latest developments in technology have provided employers with many opportunities in terms of implementing and supporting their reward management practices and systems. Many activities previously requiring massive investment in terms of human capital in order to be administrated and maintained are nowadays much more agile and straightforward to manage and, hence, easier to be offered by employers to their staff.

Flexible benefits packages, total reward statements and, more in general, communications in support of the worth and value of the reward packages offered by businesses to their employers, just to cite a few examples, are nowadays definitely made more accessible and effective by means of cutting-edge technological solutions.

The Ethical aspect

It can be said that, as suggested by Crane and Matten (2006), corporate ethics is essentially concerned with those organizational activities which are not covered by regulations and on which there is no widespread agreement about what can be considered “right” or “wrong.”

Indeed, corporate ethics cannot be considered a secondary aspect of modern businesses practices, if anything for the remarkable impact which can be caused on an organization’s commercial activities by some stakeholders pressure groups (Worthington and Britton, 2009). Usually these activities are aiming to report and uncover cases of bribery, price fixing, child labour exploitation and other similar, to put it mildly, questionable activities.

However, it cannot be denied that the reward practices developed within the banking and financial industry, namely some kinds of bonuses and more specifically the mechanism according to which they have been offered, although not illegal, have caught the public attention. People, by and large, have considered these ethically wrong.

This negative perception inevitably damages overall organizational and market image. However, the perception that such reward practices are openly unethical is testified by the circumstance that financial authorities have started to emanate specific regulations on the way banks offer bonuses to their traders and executives; although, their main aim is not clearly that to preserve organizations’ ethics, but rather to reassure the public and ensure the sector stability.

More is better

In recent years, individuals’ motivation and engagement have constantly been at the top of business leaders’ agenda and are certainly destined to stay amongst managers top priorities still for the years to come. Although the positive impact and effectiveness of financial reward on employee engagement and motivation is widely considered controversial at best, its importance within HRM policies in general, and reward management in particular, can be taken as axiomatic.

HRM policies, and reward practices amongst these, are invariably introduced within organizations with the aim to help employers to achieve their predefined and pre-identified objectives. It can be said that, at large, policies are designed and executed to support businesses to attain organizational strategy and objectives and, by means of that, competitive edge.

By reason of the fierce competition nowadays practically characterizing every type of market and of the negative impact caused by the financial downturn and slowdown periods which cyclically affect the economy, achieving the intended objectives can very often reveal a real difficult feat to achieve for employers. Prevention is better than cure so that also in consideration of the constant difficulties faced by businesses to compete in their market of interest, in order to attain the intended objectives, employers should avoid just putting in place a single or a very few initiatives, eventually resorting to a "plan b" in case of failure of this or these, and better planning and having recourse to a combination of simultaneous actions, which will more easily and more likely enable them to effectively, consistently and realistically achieve their intended results.

The bundle approach, meant as the combination of a pre-identified set of initiatives put in place simultaneously, can reveal to be a truly remarkable and effective method, in order to employers sensibly increase their chances to succeed. Having recourse to a combination of different activities and actions rather than to a single initiative, will in fact sensibly contribute to make it easier for employers achieving their intended results. Additionally, the concurrent availability of different options at anytime can clearly enable employers to stay more flexible on the use of an action or set of actions rather than another and to differently adapt and combine the pre-identified practices according to the circumstances.

Yet, the simultaneous recourse to several initiatives will also produce a better, incremental result thanks to the synergetic effect produced by the combination of the different actions put in place. The idea underpinning the bundling concept is that thanks to the synergetic, incremental and ultimately multiplicative effect produced by these different set of actions 1+1=3 (and not 2).

In the case of reward management, this means that reward strategy objectives can be attained by means of a combination of financial and non-financial rewards and, more in particular, by the identification of the appropriate and bespoke combination of the ones and the others which best fit individuals needs and expectations.

Employers should neither forget nor overlook the circumstance that individuals are different one another and, hence, have different needs and expectations. The first requirement of the expectancy theory, that is, individual's expectation in fact has to be intended in the sense of "subjective probability" (Boddy, 2008), which conceptually aims at stressing the importance of the differences existing amongst individuals.

The significance of a contingent approach to individual motivation is also stressed in the Job Characteristic Model developed by Hackman and Oldham (1974), which basically highlights differences of preferences between intrinsic and extrinsic reward amongst individuals on the basis of each person's different Growth Need Strength (GNS).

The effectiveness of the bundle approach is essentially based on the underpinning idea that "more is better" (MacDuffie, 1995): the larger the number of activities and initiatives which will be identified and developed by employers, the higher the chances that they successfully meet individuals and, hence, their own expectations.

The reward management continuum

As described in Paragraph 1, reward management can basically be considered as a system composed by all of those intermingled activities designed, developed and introduced by employers in order to ultimately balance and meet both individuals and employers needs and expectations.

These activities are essentially expressed by practices and policies aiming at rewarding people according to the contribution they provide to the achievement of organizational strategy and objectives. According to these practices, meeting individual's wants can be considered as a means to an end. These practices and policies are, in turn, essentially expressed by means of the reward packages employers' offer to their employees and it is on the basis of these that individuals build up their perception of their organizations' reward management practices fairness and effectiveness.

Each reward package should include a combination of a more or less wide range of financial and non-financial varieties of rewards, insofar as each person within an organization should be able to find the ideal combination of financial and non-financial rewards meeting his/her needs and expectations.

Individual needs and expectations, as we have seen above, are also very likely to change with the passing of time in that the changing personal and contextual circumstances can produce in turn a remarkable impact on individual wants.

According to this assumption reward management, or rather, the reward practices expressing it can be considered as a continuum where each individual can find the right and most appropriate balance between financial and non-financial rewards.

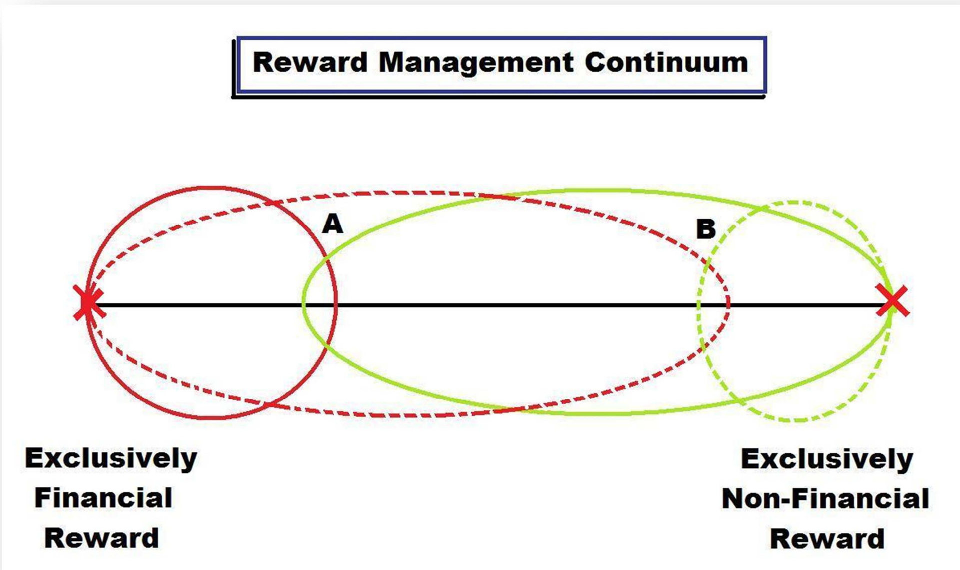

Table 1 – The reward management continuum

In relation to the personal changing circumstances, and over time, individuals can differently perceive and feel the importance of financial rewards over non-financial rewards and vice versa.

It can be argued that individuals will never find themselves in one of the two continuum's extreme positions. To put it in a different way, inasmuch as individuals can feel the need for a different combination of the two forms of rewards, none of them will ever feel the need for receiving from his/her employer exclusively rewards in only one of the two forms. It cannot in fact realistically be assumed that individuals will feel comfortable just receiving money for their work, nor can be considered practical that individuals could perceive as fair and adequate reward packages exclusively formed by non-financial components of reward.

The reward management quadrant

The circumstance that, for a whole range of reasons, individuals' wants and expectations are subjects to changes over time can be taken as axiomatic. Notwithstanding, it is not completely clear, with specific reference to the changing balance between financial and non-financial rewards, which reasons can account for individuals preferring reward packages mainly based on financial rather than on non-financial rewards and vice versa. It could, hence, be considered a worth and interesting exercise trying to identify which particular factors and circumstances primarily contribute to urge people focusing upon one of these two main components of reward packages. Pinpointing the reasons according to which the balance between the two components of rewards is likely to change over time can provide employers with remarkably interesting insights helping them to develop and introduce more sound and fitting reward management practices (Longo, 2012).

In general, it can be said that individuals tend to get rather quickly used to receiving larger amounts of money; so that it is quite unlikely that people, regardless of their real need, would not appreciate extra amounts of cash. On the one hand individuals tend to spend their money, and making plans about how to spend it in the future, according to the level of salary they actually receive; on the other hand it cannot be denied that every individual longs to buy something he/she basically knows could never be able to buy in the light of the current disposable income. There are also things individuals could actually potentially buy making extra efforts, that is, on credit, which individuals hesitate and avoid buying just by reason of the long-lasting financial efforts these purchases require (Longo, 2012).

During their everyday working life, however, people are not usually focused on their personal expenses plans, but rather on their activities, duties and tasks; that is why they want compelling, meaningful jobs about which shouldering the responsibility. Employees want to understand which their contribution to the overall organizational strategy and to the attainment of the business objectives is and, as long as they perceive that the activities they carry out and the results they produce are contributing to the overall organizational success, they will be willing to go the extra mile and feel encouraged to produce discretionary behaviour and efforts.

The picture described above represents, to an extent, a situation according to which people are likely to care about their personal commitments when they are at their homes, whereas they are totally focused on and involved in their tasks, activities, duties and assignments when they are in their workplace. Notwithstanding, whenever people encounter personal difficulties, meaning by that that individuals are experiencing hardships associated with their personal and family lives, things may change. These adversities can in fact have a negative impact on the quality of the working activities these people carry out and on the output and results they produce. Individuals are, therefore, likely to focus on their working activities and perform well as long as they are not seriously concerned or distracted by personal-related issues. It is, for instance, likely that an individual will perform below his/her average performance level after having learned that one of his nuclear or extended family members has been diagnosed a severe disease. This actually is just an example of a personal circumstance potentially able to affect individuals' performance in the workplace. It might also be possible, nonetheless, that some individuals in such circumstance, which have nothing to do with the workplace and the employer, could even find and feel working as a way to momentarily forget their personal problems and that working could help them to be resilient and to regain personal strength. As mentioned several times, people are different one another (Longo, 2012).

When family- or personal-related hardships and adversities are, instead, caused by lack of money, putting people in the situation to barely be able to pay their bills or, even worse, to be unable to pay their debts off, such situations can have a deeper, more remarkable and longer-lasting impact on people performance and output. Differently from the previous case in this case individuals can see a direct link between their personal situations and the income provided to them by their employer, which at this point they can perceive as inadequate at best and unfair at worst.

The importance that individuals associate with financial reward, in relation to their ability to face their personal and family financial commitments, can clearly be identified during periods of economic downturn and slowdown. Pay freezes and below-inflation salary increases eroding individual's purchasing power and disposable income, are sensibly suffered by individuals, causing them to pay more-than-usual attention to the financial aspect of the reward packages they receive. Research actually supports this assumption; findings of a number of investigations have revealed that individual attention to the salary component of the reward packages they receive becomes particular important during glooming economic periods. Amongst these investigations it is definitely worth mentioning the CIPD's "Employee attitude to pay" (CIPD, 2012), the NorthgateArinso's "Global Pay Optimism Index" (NGA, 2012) and Aon Hewitt's "Salary Survey" (Aon Hewitt, 2012). It is also of paramount importance highlighting the fact that the findings of the Global Pay Optimism Index investigation, carried out by NGA (2012), revealed that the 1,300 respondents across the globe rated "a pay increase" as the most valued benefit they would have been glad to receive from their employer.

It clearly emerges that, although usually individuals want to receive reward packages offering them the right balance between financial and non-financial reward, where each individual has his/her different view of what right means, individuals' focus tends to transfer to the financial component of reward in those periods in which, for whatever reasons, their disposable income and purchasing power have been reduced and weakened or, more in general, their pay is no longer sufficient to enabling them to face their financial commitments (Longo, 2012).

Although, so far, only economic downturn and slowdown periods have been mentioned as dangerous factors potentially eroding individuals' purchasing power, these are clearly not the only reasons urging individuals to focusing more on the financial component of the reward package they receive.

Whether the predicted arising of economic contingencies can put employers on the alert for likely consequent widespread requests of salary increase within their organizations, other less obvious personal factors can contribute to alter the balance between financial and non-financial reward of a very few individuals or just of a single person within an organization.

The above mentioned circumstance in which an individual's family member should contract a severe disease, for instance, can require the employee to face unexpected expenses which could severely challenge his/her disposable income sufficiency.

Clearly there are a number of factors influencing individuals' preferences and need for preferring the one over the other form of reward. Some can be considered predictable, others much less predictable, but it is obvious that for employers being aware and understanding all of the possible situations which can have an impact on individuals preferences definitely represents an overly difficult feat to achieve. However, employers need to be conscious that such circumstances can happen and should, hence, pay attention to unusual individuals' behaviour which sometimes can be originated by personal circumstances affecting employees' level of performance and quality of output (Longo, 2012).

In conclusion, the fact that every individual, by and large, wants and to an extent needs a combination of financial and non-financial reward can be taken as axiomatic, what is, instead, difficult to determine is when and why individuals can tend to prefer a larger component of financial reward over the non-financial component.

Inasmuch as people want meaningful jobs and want to be active part of their organizations objective-achievement process, to which they aim to contribute, individuals can actually and genuinely express this attitude only when they have a financial stability, that is, when their disposable income and purchasing power enable them to rather comfortably deal with their personal and family financial commitments. It could be hence identified somewhat of a financial security threshold below which individuals find it difficult to truly focusing on their activities and benefiting from the intrinsic aspect of the job they carry out. Only once this threshold has been passed, individuals will feel much more confident and at ease with their personal situations and hence in the position to more comfortably and genuinely focus upon their working activities (Longo, 2012).

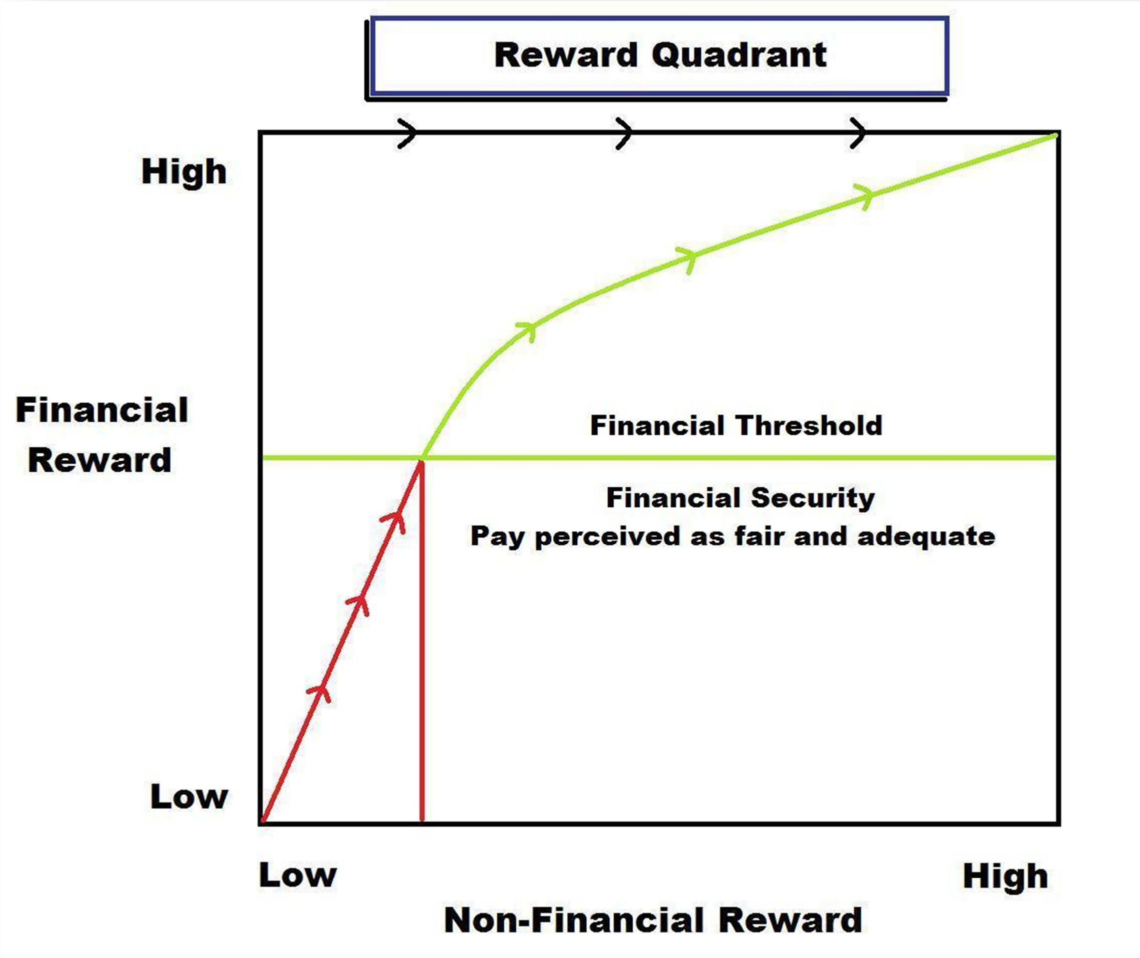

Table 2 – The Reward Quadrant

The minimum wages/salaries fixed by national governments, where existing, are aiming to some extent to identify this threshold, clearly, in a completely hypothetical way and do not taking into account the different personal circumstances. From this point of view, employers, consistently with their own financial circumstances, should strive to identify the right threshold for their organization, even though it could turn to not be sufficient too, in that a financial threshold should be, in theory, identified for each person (Longo, 2012).

Yet, it should not be overlooked that on doing so, employers should also keep into consideration the circumstance that the reward packages they offer to their employees also have to be perceived as equitable and fair by all of them. Whereas on the one hand individuals tend to consider as fair and adequate the reward packages whose financial component will enable them to live relatively comfortable lives, employers should make sure, on the other hand, that the reward packages they offer are considered and perceived as fair and consistent by the entire workforce. In other words, trying to identify individuals' needs and expectations does not mean creating unjustified inequality and unfairness (Longo, 2012).

It clearly emerges that designing and developing reward management systems, and express them by means of adequate and consistent practices and policies, is everything but straightforward. Nevertheless, employers should be aware of the importance of meeting, as far as possible, individuals' wants and expectations, as well as is important that they are aware of all of the likely pitfalls associated with designing and introducing inconsistent and unfair reward practices and systems. The task is genuinely challenging and that is why employers need to build synergism with other forms of rewards, namely flexible and voluntary benefits, in order to attain the desired objective.

The impact of the changing content of the psychological contract over reward management practices

Individuals' preferences, needs and expectations are not actually influenced only by personal occurrences. Even though, in general, a more direct link between personal difficulties and individuals need for salary increases can in fact be identified; in practice individuals' wants and expectations are not just influenced by adversities.

Still focusing on the financial component of reward only, it can be said that individuals' keen interest for the one or the other element of the reward packages they receive from their employers is indeed influenced by a whole range of different factors. Yet, individuals' needs and expectations cannot only be met by the financial component of the reward packages they receive. Finally, individuals' preferences are not static, but can be considered somewhat of dynamic, meaning by that that these are subject to change over time.

Acquiring an overarching, in-depth knowledge of individuals wants and being able to promptly capture changes in people's needs and expectations, not to mention the ability to understand future trends, can clearly reveal to be crucially important to design, develop and introduce effectual reward management practices within an organization.

In broad terms, it can be said that, essentially, employers aim and strive to have, as far as possible, recourse to sophisticated, craftily devised reward management practices because they are expected them to pay off. To put it another way, employers try to meet their own expectations by meeting those of their employees and that is why it is said that reward management practices need to satisfy both employers' and employees' needs.

As it is widely recognised, one of the topics at the top of business leaders' agenda is staff motivation which, together with employee commitment and engagement, definitely represents one of the current top priorities for every employer. Reward managers and specialist should hence consider enabling employers to achieve this objective or, the worse comes to the worst, helping them as effectively as possible to attain it, their first priority.

Finding effective and sound ways to motivate and engage staff is clearly seen and perceived by employers as a no mean feat. Especially in periods dominated by harsh competition or during phases of financial downturn and slowdown, when employers have to tighten their belts in order to maintain their competitiveness, the human capital factor, that is, the only factor which can hardly or even impossibly be replicated, is broadly recognised as the only and most powerful factor which can actually contribute organizations competitive edge (Longo, 2011a).

But how can in practice employers encourage discretionary behaviour and induce their staff to go the extra mile in order to achieve the desired level of performance? The answer should be found in the root of every employment relationship, namely the psychological contract according to which individuals commit themselves to perform working activities for their employers in exchange for a not exactly specified and generically defined "reward." This conundrum is actually not as straightforward as it might seem to deal with. As we have seen the meaning and content of reward is unlikely to be the same for the different individuals concerned within an organization, as well as it is unlikely that this meaning and content would remain stable and invariable over time for the same individuals concerned (Longo, 2011a).

People identify different goals to satisfy their different needs and act differently to attain their identified goals (Armstrong, 2006), the one-size-fits-all approach to motivation is, hence, very unlikely to produce appreciable results. The most effective, and, to some extent, most obvious approach to deal with the issue would just be to give each individual what he/she actually wants and would like to receive (Longo, 2011a).

Individual's preferences can, in general, be investigated by means of focus groups, "have your say" communication sessions, staff consultation forums, large group sessions, internal surveys and other similar initiatives. Since it is not only people who are subject to change, but also the world around them, a thorough and comprehensive investigation cannot miss to consider the external environment too (Longo, 2011a).

As described in paragraph 4, a PESTLE investigation can definitely help employers to anticipate future trends and their influence on individuals' preferences. An evidence of the impact and relevance of the role played, for instance, by the legal framework within which organizations operate is provided by the findings of the study "Benefits around the world Report 2011" carried out by Mercer (Mercer, 2011). The findings of this investigation basically revealed that multinational organizations have been prompted to introduce remarkable changes in response to states pension and health and welfare reforms. Indeed, structural pensions and health provisions reforms have been introduced in many countries across the world essentially generating a gap between what employees were expected to receive after their retirement and what they will actually receive. This aspect, especially in the light of the ageing population phenomenon and of the consequent international trend according to which retirement age tends to be risen, has led organizations to design and implement different approaches in order to bridge this gap (Longo, 2011a). This is an example of an aspect that, whether could have been previously perceived as less important by individuals, is now considered as one of the most important employers have to care about in order to honour the psychological contract.

Most importantly, the findings of the studies and investigations carried out over the years have revealed that individuals are not motivated just by the extrinsic and financial component of reward; research has suggested that people are much more motivated by intrinsic, non-financial rewards and find much more motivation in their jobs rather than in the pay they receive to carry them out.

Clearly, over the years the content of the psychological contract has changed, providing evidence on the one hand that what individuals want and are expected to receive from their employer is not stable and on the other hand that employers are the weakest of the two parties involved in the contract. The change and evolution of the psychological contract content in fact very much depends on employees rather than on employers ever changing expectations.

In order to duly consider individuals' continuously changing needs and to balance the effects of financial and non-financial reward (whatever the emphasis on non-financial component of reward, employees would not work if they would not receive a salary), relatively recently, a new concept of reward has been developed, that is, that of total reward.

In broad terms, according to the total reward approach reward packages have to be developed and built up on two distinct main components: a financial/extrinsic component and a non-financial/intrinsic one. The design and development of this kind of models is based on the idea, supported by decades of studies and investigations, that financial reward is not a so effective and powerful motivator as it might seem, at least in the mid and long run. Findings of dozens of investigations and surveys carried out over the years have revealed that financial rewards can help organizations to attract individuals during the recruitment process, but that these cannot be considered as a powerful and effective motivator during the employment relationship. Emphasis has, instead, to be given to the development, involvement and participation of individuals. Taking care with both of these aspects, total reward approaches can effectively help employers to promptly respond to their employees changing needs and meet individuals' expectations based on the content of their unwritten psychological contract (Longo, 2011a).

The external environment is constantly exposed to changes and clearly individuals' needs are determined and influenced by what happens in the exogenous environment. Inasmuch as the external environment is changing the faster and faster, individuals' needs are subject to change at the same speed. In order to retain their staff employers need to be aware of this circumstance and need to be able to having recourse to the appropriate tools in order to investigate the phenomenon (Longo, 2011a).

Reward Management

Reward, or rather, total reward is clearly of pivotal importance and has a relevant role in the process; employers resorting to well designed and flexible total reward approaches should be able to face the changing conditions promptly and effectively and to adapt, hence, their offering to the changing content of the psychological contract without any particular difficulty (Longo, 2011a).

There is, nonetheless, a circumstance which employers should really neither overlook nor underestimate: inasmuch as individuals are different one another, not necessarily all of them, although certainly the greatest number of them, long for professional growth. This is actually not the case of those who would like to quickly climb the career ladder but do not do anything in practice to attain this objective, but rather the case of those who are not interested to approach the ladder itself.

The Job Characteristics Model developed by Hackman and Oldham (1974), which is a contingent rather than a universal approach like the Hierarchy of needs developed in 1943 by Maslow (1954), shows that not all of the individuals have the same level of Growth Need Strength (GNS). In particular, people with low GNS are not interested in:

- Intrinsic reward, they do not look for the variety of the job performed, **skill variety**;
- **Task identity** either, that is, with the importance of their role in the overall organizational process;
- Knowing the impact of their job on other employees' jobs, **task significance**.

Yet, people with low GNS do not feel rewarded by higher **level of autonomy** and are not that much interested in receiving **feedback** from their managers about their performance. Such individuals do not therefore receive any benefit from intrinsic reward, on the contrary, if forced beyond their desired level of GNS, results could be counterproductive and they could even perform below their usual standard. As the matter of fact, there are not so many individuals having low GNS, but these kinds of cases have to be promptly identified by employers and treated accordingly. More often than not, this is case of individuals (mostly, but not necessarily, involved in mechanical jobs) who feel more comfortable being rewarded by extra cash only for their good performance (Longo, 2011a).

It can be concluded that the main element contributing to make reward practices particularly tricky to manage is represented by people variety and diversity and by the dynamic mechanism according to which individuals' wants and preferences change with the passing of time.

Employers have to be aware that not meeting individual needs, nonetheless, has not to be simply considered as generating disappointment in the people concerned; such occurrence in actual fact causes in people the even worse feeling that their psychological contract has been breached by the employer. Should this undesirable circumstance happen, it is very likely to generate negative behaviour and unsatisfactory performance. Employers need by extension to pay extra care to this particularly sensitive aspect.

Reward management in a framework context

Despite many argue that attributing to financial reward a motivating effect should be considered questionable, it can be taken as axiomatic that whether employers are paying a growing attention to this aspect it is only because they believe that, in one way or another, financial rewards have a role to play and, although to different degrees, can actually influence individual behaviour. To put it in a different way, albeit employers might be persuaded that money does not motivate people, they are aware that, even though not homogenously, individuals attach to it an indeterminate degree of importance that they cannot really afford to overlook.

Financial reward might not be hence considered as a means to an end, but it surely needs to be considered as part of the means. Yet, Herzberg's definition of money as a hygiene factor, after all, recognizes and attaches to financial reward a meaning and a certain degree of importance, even though to a negative extent, that is, as demotivating individuals if not perceived as fair and quantitatively adequate.

It can ultimately be maintained that analysing the role played by financial reward over people's motivation per se could be considered inappropriate and partial. Held in isolation and as the only factor used to influence people's behaviour and actions, it is very unlikely in fact that financial reward could reveal to be an effective means to the motivation end; whereas used as part of a wider and more extensive plan of action aiming to induce employee discretionary behaviour, financial reward will surely reveal to be an employers' more effective allied. After all, it is very unlikely that employers could ever be able to attain this ambitious objective having recourse to a single element, initiative or action.

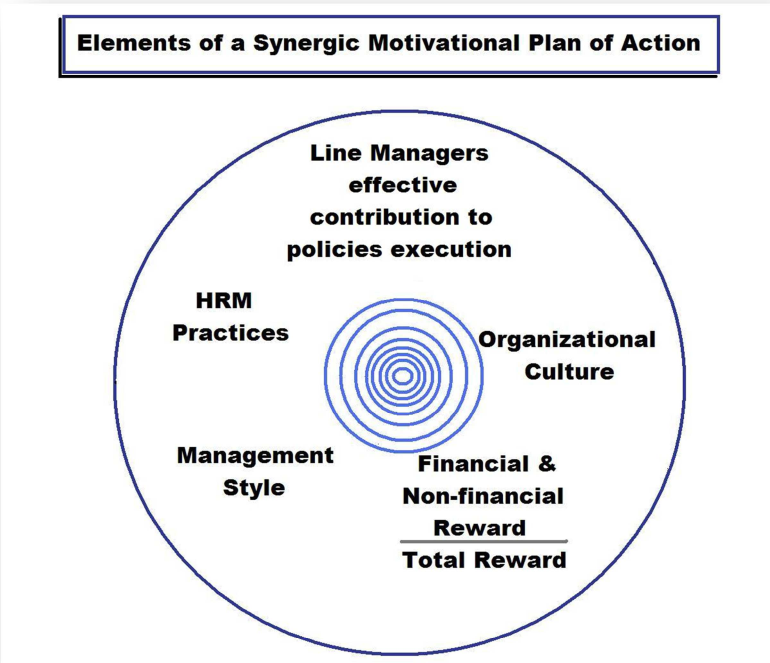

Table 3 - Elements of a synergic motivational plan of action

To this degree, by extension, financial reward needs to be better considered as part of a framework where, used in synergy with other non-financial reward components, it can more successfully be used. It is, essentially, an example of practical application of the bundle approach based on the tenet "more is better."

Resorting to a specific model will also reveal to be particularly useful in order to introduce some concepts and ideas which are particularly important and necessarily need to be known and understood by employers and reward specialists as well to design and develop more appropriate, effective and consistent reward strategies and practices.

The framework described in Table 4 tries to provide employers with an example of how reward management can effectively be used in combination, that is, in synergy with other elements in order to influence individuals' behaviour and performance.

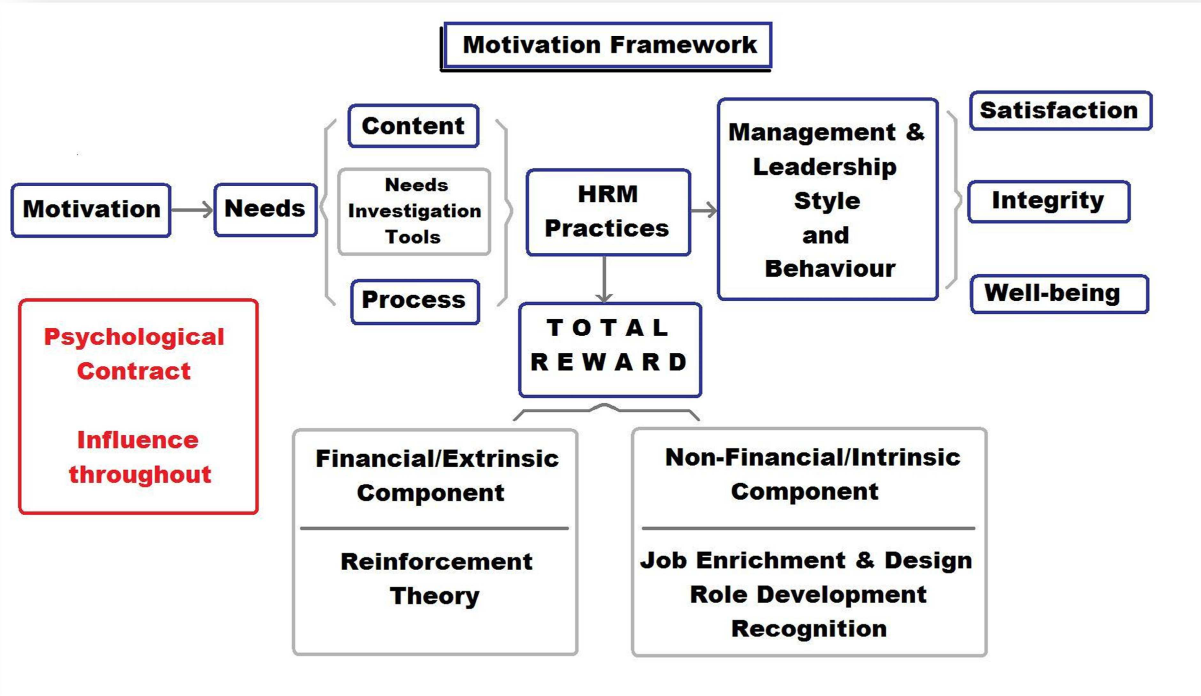

Table 4 - The Motivation Framework

The first step of the process consists in identifying individual's needs, aim which can effectively be attained resorting to content theories. It becomes important, hence, determine how individuals choose, amongst the available options, a specific plan of action to satisfy their needs; the reference being, instead, here to process theories.

After having carried out these two first investigations, employers can analyse the information gathered and use them accordingly. The ultimate scope is to influence employees' actions developing and introducing appropriate and consistent HRM practices. It should not be overlooked in fact that HRM policies aligned with the overall business strategy basically aim at inducing those behaviour and actions considered crucial for the successful attainment of organizational strategy and, consequently, business success. The final stage of the framework focuses on determining the most suitable behavioural management style, consistently with organizations' values and shared beliefs, in order to win workforce's trust and inspire integrity (Longo, 2011b).

The importance of the psychological contract

People in charge of carrying out the process should be well aware that throughout the process particular attention has to be paid to the psychological contract. Both employers and employees in fact from the very beginning, namely the moment the working relationship has been established, have reciprocal expectations and these expectations actually represent the basis of the psychological contract (Longo, 2011b).

The solidity and strength of this unwritten contract very much depend on individuals' trust in their employers and, more in particular, on individuals' belief and confidence that their employers will "honour this deal" (Guest and Conway, 2002). This really is a sensitive issue in that, although we are looking at an unwritten contract, the eventual breach of this "reciprocal obligation" from the employer's side is very likely to trigger remarkably negative effects in that it would be perceived by employees as a threat to their job stability (Porter and al., 2006). Individuals' commitment and engagement would decline and with them performance and staff's willingness to go the extra mile. It is the overall organization's capability of gaining competitive edge which would be exposed to danger (Longo, 2011b).

Content theories

Broadly speaking, in the past, two theories have been dominating the subject of the reward-motivation supposed link: one was based on the existence of a strong and direct cause-effect relationship between these two elements (Taylor, 1917), whereas the other was underpinned by the concept that people are motivated by the social factor rather than by the financial one (Follett, 1926 and Mayo, 1949).

In order to properly investigate the phenomenon, it is, first of all, important to duly consider whether individuals' needs can be clearly collectively identified.

Alderfer (1972) suggests that in every person there are the same wants. Individuals' needs are, however, differently perceived and this diversity very much depends on the different importance and level of priority that every individual attaches to each different need. This aspect, which could apparently be considered of secondary importance or just as a nuance, is instead of paramount importance. The significance that every person associates with each need in fact modifies the perception of each individual towards the same need, making ultimately individuals' wants different according to every person's different perception (Longo, 2011b).

Particularly relevant amongst the content theories is also the two-factor theory developed by Frederick Herzberg (1957). More in particular, Herzberg carried out a thorough investigation about the factors affecting people motivation revealing that individual performance is affected by two groups of factors: "satisfiers" and "hygiene factors." The former positively influence performance, whilst the lack of the latter causes dissatisfaction. In particular, Herzberg reached the conclusion, in contrast to that reached by Frederick Taylor, that money is not a motivator but a hygiene factor, it can prevent dissatisfaction, but it does not positively influence performance, at least in the mid and long run (Longo, 2011b).

These conclusions are supported by many other more recent studies, amongst them the survey carried out by the National Training Awards (2010), according to which 76 per cent of respondents claimed that only when looking for a new job the most attractive feature to them is represented by salary, whereas just a relatively measly 32 per cent maintained to be motivated by money.

Process theories

In order to be successful in the motivation-attainment quest, hence, what really matters is understanding and determining what motivates people.

Process theories can definitely help employers to find out how, and on the basis of what, individuals make their choices, whilst expectancy theories can reveal to be particularly useful to understand the thinking process individuals use in order to achieve satisfaction. Vroom (1964) developed a theory relying on the basic assumptions that people are different, have different needs, differently value outcomes and differently decide to what actions having recourse in order to achieve their identified objectives.

The theory unfolds from the assumptions that people make efforts (E) to achieve a desired level of performance (P). Performance (P) is considered necessary to achieve a particular outcome (O), which will produce, in turn, a reward and will be differently valued by each person according to his/her wants. Additionally, each individual attributes to the achievement of the desired outcome a different valence (V). An individual valuing personal growth would make efforts and will give valence to the career opportunities offered by his/her organization, and will behave in a way leading to that identified outcome; an employee valuing relationships, will give valence to other kinds of behaviour and outcomes (Vroom, 1964).

In brief, considering "F" as the "force" applied, or as the degree of motivation, the whole process could be represented as follows:

$F = (E \rightarrow P) \times (P \rightarrow O) \times V$

Where (E) – Efforts, (P) – Performance, (O) – Outcome, (V) – Valence

According to Vroom (1964) the expectations influencing motivation will basically be relying on the facts that:
- Efforts made will lead to performance ($E \rightarrow P$)
- Performance reached will lead to an outcome that the individual value ($P \rightarrow O$)

Motivation will be, therefore, influenced by two factors which need to be appropriately known by employers: individuals' expectation that efforts will lead to performance and the consequent conviction that the level of performance achieved will produce a valued result. The importance an individual associates with the achievement of an outcome, gives the measure of his motivation towards that outcome (Vroom, 1964). If individuals should believe that whatever the efforts they produce they will never be able to reach the required standard of performance, their motivation will equal zero ($P \rightarrow O = 0$), and that is why when setting objectives managers need to agree with their staff goals which can be achieved in practice. Exactly the same outcome will be achieved in the event individuals should believe that the level of their performance should produce nothing valuable.

Individual wants investigation tools

Once employers have become acquainted with the way individuals make their choices and develop their preferences, they can have recourse to specific tools, such as "have your say" communication sessions, staff consultation forums, large group sessions, internal surveys and similar initiatives to identify which their different needs are and try to categorize and group these.

HRM Practices and the role of Managers

Employers and reward specialists, when designing and developing HRM policies, should never neglect the importance of aligning HRM policies with the overall business strategy. HRM policies should, then, be developed in order to induce and foster those actions and behaviour which are considered crucial by the organization for the attainment of the desired objectives.

HR practices should not only be aligned with the overall business strategy but should also foster the organization's values and shared beliefs, ultimately contributing to inspire integrity within the concern.

Employers considering human capital as the most valuable asset for their organization should have no doubt to having recourse to the soft approach to HRM in order to motivate staff and enhance their productivity, as opposed to the hard approach which considers people just as a common resource (Fombrun and al., 1984) and which usually leads to a less engaged, motivated and, by extension, less productive workforce.

Research carried out in Ireland by the Michael Smurfit Graduate Business School's (Roche, 2011), showed that in some circumstances employers could be justified, if not having other available options, to also resort to the hard HRM approach. Findings of the study revealed in fact that amongst the initiatives carried out by Irish organizations in order to face the effects of the financial crisis and emerge from downturn, a blended approach to soft and hard HR practices was used. Since some of the hard HR implemented measures were intended to reduce staff's salary, simultaneously having recourse to soft HR initiatives was actually intended to prevent a decrease in staff motivation and counterbalance the negative impact on individuals' motivation which should have been caused by exclusively adopting a hard HR approach.

This is actually a good example of financial reward acting as a “hygiene” factor. In this case in fact a financial reward reduction was seen by employers, as intended by Hertzberg, as a factor potentially or very likely, to produce demotivating effects. Although the extrinsic component of reward, or rather an increase in the level of financial reward, is not likely to positively impact individuals’ motivation, its reduction is, by contrast, recognized to likely produce detrimental effects on individual motivation.

However, as showed by the Irish case, also in situations dominated by economic uncertainty and financial difficulties the most appropriate and effective solutions to which organizations should resort cannot be exclusively identified in a hard HR approach.

The “soft” approach, considering people as a valuable resource whose abilities, skills and capabilities can provide competitive edge to an organization, creates a motivated, committed and satisfied workforce, enabling, hence, individuals to achieve excellent levels of performance (Legge, 2005).

To attain effective and long-lasting results, HR practices need then to care about seven crucial points: job security and career perspectives, selective and sophisticated recruitment procedures, training and developing opportunities, status differentiation reduction, communication and information circulation, fair compensation depending on performance and teamwork (Pfeffer, 1998).

HR practices founded on these pillars will enable employers to provide the elements to create a stimulating and productive working environment (Marchington and Wilkinson, 2005). Each organization should use the ones which best fit its case, since the one-size-fits-all approach is not really likely to produce good results. HR policies need to be differently adapted according to every organization aims and objectives.

In general, the inspiring principle should, one again, be the “additive effect” (Porter and al., 2006), according to which the result of every single practice will be reinforced by the introduction and implementation of others, ultimately producing a synergy which will enable businesses to achieve the more powerful output usually associated with the bundle approaches.

A bundle of consistent and coherent HR practices will certainly contribute to enhance an organization’s output’s quality and productivity (Guest et al., 2000). However, the fact that a relevant number of policies exists within an organization does not necessarily imply that these practices are effectively, consistently and appropriately managed and executed: to this extent the role of management is crucial.

A study, carried out to understand the link between HRM policies and performance according to the AMO model, based on the assumptions that in order to properly perform people need to have the necessary “Ability”, be “Motivated” and have the “Opportunity” to show their capabilities, confirms the relevance of the influence exerted by managers on staff performance (Purcell et al., 2003). More in particular, the study revealed that even though organizations have practices promoting motivation, job security, communication and involvement capable to potentially produce "human capital advantage", these policies need to be supported by "human process advantage" (Purcell et al., 2003), that is, a management willing and able to consistently and effectively implement these practices.

Research confirms that, for instance, it is quite impossible for employees stay engaged if their work is monotonous and poorly designed (MacLeod and Clarke, 2009). Managers should be warned of the importance of their responsibility and of the relevance of their role and contribution to the effective and efficient design of the job performed by their staff (MacLeod and Clarke, 2009).

The "job enrichment" model developed by Hackman and Holdham (1980) is a good example of how managers can effectively contribute to enhance staff engagement and satisfaction. This model is based on three "psychological states" which if unsatisfied cause low motivation, namely:

• "Experienced meaningfulness", that is the importance linked to the job performed by an individual. The more the employee perceives his job as important, the higher his level of motivation will be;
• "Experienced responsibility", that is the degree of an individual's responsibility towards the quality and quantity of his output;
• "Knowledge of results", the importance attached by each individual to the need of receiving feedback on his/her job.

These "psychological states" are influenced by the task features, namely:

• The variety of skills necessary to perform the task.

The more varied the task, the wider the range of skills required to perform it and the more dedicated the activity performed by individuals,

• The significance of the task performed.

If the task is valued, staff will feel much more motivated,

• The degree of latitude allowed to individuals when performing their task.

The more latitude will be given to individuals when delivering their task, as the more important will be perceived by themselves their contribution to the achievement of the final outcome of their job.

Currie (2006) suggests that managers can contribute to motivate their staff providing them autonomy, the feeling of delivering an interesting and useful work, and offering individuals opportunities for teamwork and flexibility.

Managers clearly expressing staff their appreciation for their work contribution, treating them as individuals, facilitating and empowering employees, are crucial to their engagement and can be deemed as engaging staff (MacLeod and Clarke, 2009). As suggested by Boddy (2008), in order to induce motivation, managers should offer the reward each employee values the most, ensure a clear relationship between performance and reward and provide valuable feedback to their employees.

The importance of the role of managers is stressed by the adage “Employees leave their managers and not their employers” (Buckingham and Coffman, 2005). Managers should be aware and never forget that, as put it differently by McLeod and Clarke (2009), people join organizations, but leave their managers.

The importance of managers, but also their impossibility to fully attain their objectives in the event that these will not receive the necessary support from their direct reports, is highlighted by Rosemary Stewart (1967), who defines managers as those who gets things done with the help of other people and resources. Clearly, in order to receive that help an appropriate leadership style and behaviour are mandatory.

In whatever condition and situation, leadership style should always care with and duly consider the importance of human capital. As emerged from the Roche (2011) investigation, even in presence of adverse economic conditions, showing concern just for production and not also for people would represent a massive blunder.

According to the 3D Grid model, developed by William Reddin (1970) (obtained adding a third dimension - “effectiveness” - to the model developed in 1964 and 1979 by Blake and Moulton, which was only based on “task” and “people” orientations), the leadership approach managers have to adopt to give considerable attention to both people and task and enhance workforce efforts, is the one he defined as the “executive” style. This style push mangers to set “high standards”, whilst recognising differences amongst people and their preferences, which combined with their open interest to both results and people, make them effective motivators. As Reddin (1970) suggested, there is not an ideal management style; to achieve effectiveness, flexibility and a contingent approach are, by extension, necessary.

Total Reward

Reward clearly is a founding pillar of a framework intended to motivate staff and total reward definitely is the most effective way or rather the only way in which reward has to nowadays be intended. The total reward concept and idea will be thoroughly examined in Section II.

Every component counts but not in isolation

All of the elements described throughout this paragraph are crucial and definitely play a pivotal role for the attainment of the final outcome. However, if separately considered each of these elements is unlikely to produce any powerful result. Individuals receiving very competitive reward packages, but having bad managers will perform badly and sooner or later leave the organization. Vice versa, having very good managers but performing meaningless jobs and/or receiving poor reward packages will not make any changes in respect of the previous final outcome.

Things can only go well when a combination of factors and initiatives supporting one another are simultaneously put in place, ultimately producing synergy and additive effects. Professor Roche’s Irish study essentially confirms this, a salary reduction counterbalanced by the execution of other initiatives aiming at favouring soft HRM practices enabled employers to retain staff and induce positive behaviour. In that case the contextual factor, characterized by a particularly grim economic landscape, clearly played a role; in periods characterized by prosperity or even normality, a consistent and wise use of different elements can hence enable employers to produce even better results.

The debate about the effectiveness of financial reward over individual motivation is essentially pointless if considering financial reward in isolation. Financial reward per se is unable to motivate individuals in the mid and let alone in the long term. This is not just a typical, peculiar feature of financial reward, indeed there is no single element or initiative enabling employers to attain this objective, unless used in combination with other components. That is why an investigation of the effectiveness of financial reward, as well as of any other element employers could decide to resort to in order to motivate staff, should not be analysed in isolation but in context, that is, within the mechanism of the framework an employer has decided to put in place in order to achieve this aim.

Some elements might clearly reveal to be more effective than others, but it can hardly be argued that, according to the changing content of the psychological contract, the identified elements are destined to maintain that degree of importance. Notwithstanding, each element of the framework identified by employers as the most effective, according to the circumstances, will produce positive effects only because the other components of the framework are playing a part in the achievement of the final goal.

Additionally, it is pointless nowadays referring to reward management associating it just with financial reward; in modern times in fact reward can and has to be considered just in its wider concept of total reward. Indeed, reward management can effectively and consistently help employers to achieve their overall intended plans when the management style fits the organization, organizational culture supports organizational strategy, integrity and ethics are fostered, supported and achieved to the benefit of organizational culture and well-being is genuinely perceived by staff.

Reward management can remarkably, and more than any other element, help employers attaining their intended objective, that is, achieving competitive edge, in that it can practically contribute to influence individual actions and behaviour. In this sense, it can be said that reward management has a strategic role within an organization dynamics.

Every organization basically and ultimately aims at gaining competitive edge. In order to attain this aim employers identify and develop those strategies which they consider as the most appropriate. But this is not all, in order to employers successfully reaching their objectives it is also important that organizational culture support the overall process, something which cannot always be taken as axiomatic. It is ultimately crucial that individuals perceive and feel culture in the right way or, to put it another way, that individuals perception of culture coincide with that intended by employers, so that also organizational climate acquire a pivotal importance.

Table 5 – Strategic role of reward management

Reward management can actually help employers to support all of these stages of the process and effectively help them to achieve their final objective. Indeed, reward management is not just about how much an individual earns, by means of the reward practices in place within an organization and the way they are executed by managers, individuals can actually see well beyond the mere matter of salary. According to the way a reward management system is developed, introduced and operated in fact individuals usually form their perception about the way the employer also administer and intend fairness, discrimination, equity, consistency, ethics and integrity, all factors which in turn are likely to remarkably influence the way individuals behave and perform.

Relevant theories to reward management practices development

Reward managers and specialists should gain a thorough and deep knowledge of the different theories which have been developed over the years and that may have a considerable impact on reward management practices, with particular reference to those most closely associated with equity, fairness and justice. An appropriate and thorough knowledge of these theories is actually also important in order to gain a clear understanding of the mechanism and processes used by individuals when making judgements about their pay.

As discussed earlier, irrespective of the motivational role that cash may or may not play in employee motivation, the circumstance that the transactional component of individual reward par excellence, that is, money has a pivotal and remarkable role within any given overall reward package can be taken as axiomatic. In general, individuals' motivation should not be affected by money, at least not in the mid- and long-term, but if money should not be perceived and considered as adequate and fair by individuals this is very likely to cause dissatisfaction and lack of motivation.

Amongst the theories which can potentially influence reward practices that formulated by James Stacey Adams, between 1963 and 1965, undoubtedly plays a significant role. Findings of the study carried out by the workplace and behavioural psychologist revealed a clear association between the way individuals perceive pay levels and salary increases distribution amongst staff and their level of satisfaction at work. More in particular, individuals appeared to be much more motivated when they perceived that financial rewards were managed fairly and equitably (Adams, 1963).

Although developed in the early 1960s, this theory does not consider reward only to its financial or career advancement extent but to a wider degree where satisfaction, recognition and other forms of intangible rewards, such as courtesy and respect, are also included (Adams, 1965).

Adams' theory essentially identifies and associates a clear and direct cause-effect link between fairness and motivation. In general, individuals tend to analyse and perceive fairness on the basis of what they receive from their employer in exchange for what they deliver. They express and evaluate this relationship by means of a ratio, on the basis of which they then tend to make comparisons with their peers.

Contrasting the ratios of the different individuals composing the same group basically produces two expectations:

- That individuals having the same ratio all receive the same reward package or a reward package of the same worth, and

- That the same approach and judgement method presently used by employers to reward individuals will also be used in the future; assumption which contributes to establish a relationship between equity and expectancy theory (Stecher and Rosse, 2007).

The ratio of an individual's efforts for the reward he/she receives is usually expressed as follows:

$$\text{Outcome-to-input ratio} = \frac{\text{Employee contribution}}{\text{Worth of the Reward Package received}}$$

The idea of expressing the relationship between individuals' input and the reward these receive by means of a ratio entails that both variables could actually be measured. However, whilst individuals can attribute a quantitative value to the reward packages they receive rather easily, it cannot be assumed that it is as easier for them attributing neither a quantitative nor a qualitative value to the contribution each of them makes to the organization. In practice, all of these calculations will hence essentially turn to be judgmental.

Notwithstanding, a ratio equal to 1 would mean that there is a direct, balanced relationship between an individual contribution and the reward package he/she receives. Ratios below 1 would show that individuals receive a reward package proportionally higher compared to the efforts produced, whereas ratios above 1 reveal that people receive reward packages whose value is relatively lower vis-à-vis the efforts they make.

Adams' attention to inequity problems was actually due to a series of events characterizing the period during which he was spending time in his studies, amongst these the circumstance that a large proportion of employment dissatisfaction and industrial strikes seemed to be directly linked to employee perceived wage inequities. Yet, "intriguing anecdotal evidence suggested that wage dissatisfaction remained among some employees following substantial wage increases (Adams, 1981)."

As we have seen, the main assumption of Adams' equity theory (1963) is that each individual tends to develop and form his/her own idea about what can be considered fair reward in exchange for his/her work contribution. This clearly leads us to the realm of the psychological contract. Individuals, according to the activity they carry out and the result they yield, develop expectations or, to put it another way, individuals assume and are expected to receive a fair compensation for their contribution to the business result. Whenever these expectations are not met, individuals feel that the psychological contract has been breached and feel, consequently, the urge to react in some ways. This actually represents another tenet of the equity theory: when an individual feel that he/she is not treated fairly or equitably he/she will seek justice. It is, therefore, paramount identifying what individuals consider as fair and what they do not and determine on the basis of what individuals perceive and consider as equitable or otherwise a reward system (Longo, 2012).

As anticipated above, according to the equity theory developed by Adams (1963) there are basically two different factors mainly influencing individuals' judgment about what it is fair or otherwise. First of all, people try to assess and determine if a correct balance has been established by the employer between input and output. Individuals are thus mostly concerned with identifying the correct match between salary and skills, competencies, qualifications, efforts, experience, expertise and final results yielded. Then, their attention is directed at comparing, by means of the identified formula or ratio, their output and the way they have been rewarded with the results produced by the other employees and the reward these have received for the outcomes they have produced.

The importance of the need for employers to focusing not on what they think it is fair, but on what individuals actually perceive as fair was stressed by Jaques (1961), who developed the “felt-fair” notion. From this concept, was later designed a new method to grade jobs, the so called “felt-fair test”, which is sometimes even ultimately used over and above the results reached by means of the job evaluation exercise and sometimes even preferred to this (Torrington et al, 2008).

In general, fair reward management approaches should essentially be based on the concepts of distributive and procedural justice. The concept of distributive justice, which recalls to mind the first assumption at the basis of Adams equity theory, was introduced by Leventhal (1980) in order to stress the circumstance that individuals feel of being treated with justice whenever reward is shared amongst the individuals concerned according to the results obtained by each of them. Essentially, in fact, the concept of procedural justice is strictly associated with the attention managers should pay to fairness when making decisions and when linking reward to the different output produced by each individual (Folger and Greenberg, 1985).

Tyler and Bies (1990) focused on the concept of procedural justice to stress the importance of the practical implementation of reward policies. They basically considered crucially important the way managers make their decisions and execute reward practices.

Procedural justice is, in general, respected when a few fundamental preconditions are met by the management of the organization:

- Employee voice is listened at;
- Personal bias does not exist and does not affect management judgement;
- Decisions are applied consistently and in the same way to everybody;
- Employees are promptly informed about the decisions affecting them and about the reasons justifying these.

Nonetheless, gaining a general consensus while trying to agree pay levels within an organization can reveal to be a very tricky feat to achieve, in order to cushion the blow employers should constantly strive to strictly adhere to some fundamental and general tenets.

One of the most important requirements, applying to both basic and variable pay, is to always having recourse to a unique, standardised method for pay identification for all of the roles and jobs available within the organization (Torrington et al, 2008). Clearly, during the pay determination exercise the main effort is to leave as little room as possible to bias and arbitrary decisions.

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Section II
Total Reward

What should be considered before embracing this approach

When dealing with reward issues it should always be kept in mind that in his two-factor model Frederick Herzberg (1957) considered salary, or in general financial reward, as a "maintenance" or "hygiene" factor.

Indeed, the use of the term "hygiene" was not casually adopted, it has in fact a medical correlation, the associated meaning being that hygiene factors are considered job factors which if improved are unable to bring a healthier state but just help prevent illness (Porter et al, 2006). Put it another way, hygiene factors are more likely to help not deteriorate and maintain the current state of play rather than contributing to effectively improve it.

According to the thorough and still incredibly relevant to modern times study carried out by Herzberg, hence, hygiene factors are dissatisfiers, that is factors which can contribute to reduce and in some cases eliminate dissatisfaction, but unable to increase employees' satisfaction. By means of these factors individuals can reach somewhat of a neutral point in between complete satisfaction and total dissatisfaction (Longo, 2010).

Herzberg's study, as well as similar studies carried out by other Authors at different times, has shown that salary increases have motivational effects lasting just for about three weeks (Porter et al, 2006). Notwithstanding, Herzberg did not consider salary completely unimportant in that, as we have seen, financial rewards exert, in any case, a certain influence over motivation and, if limited, can curb the positive effects produced over motivation by satisfiers. All of that was summarized by Herzberg (1968) by means of the dissatisfiers-satisfiers continuum, Table 6.

Findings of Herzberg's investigation revealed that even when salary was positively mentioned by employees it was invariably linked to achievement, success, growth and a job well done, and not simply as money per se.

Herzberg 's dissatisfiers-satisfiers continuum

Dissatisfiers →	Dissatisfiers →	Satisfiers
Unaccounted for by employers	Taken in charge by employers	Employers provide individuals with motivators
Individuals keep remain unsatisfied	Individual's motivation reaches a mid-point	Individual's motivational needs are met

Table 6 – Herzberg's dissatisfiers-satisfiers continuum

All of that should actually be positively hailed by employers. In the event salary, and financial rewards in general, should have actually been the only levers to which organizations could have had recourse in order to induce and foster individual motivation, this would have led to a situation in which employers should have been obliged to constantly increase the value of the financial reward packages offered in order to sustain and nurture their staff motivation. After a while, independently of the fact it could be a matter of three weeks, three months or a year, employers will found themselves pouring money into a bottomless pit, something which sooner or later will have prompt employers to call in the receivers (Longo, 2010).

With specific reference to this point, Cappelli (2000) suggests that although paying staff competitive salaries can help organizations to attract and retain quality individuals, business will surely meet a limit to the extent they can compete in the "pull of the market." He also claims that albeit golden handcuffs and loyalty bonuses in general, are used by organizations to retain high-flyers, their effects are unlikely to be long-lasting; whether and once individuals should decide to go, they will go.

Findings of many surveys have actually supported these conclusions. An investigation carried out by Development Dimensions International (2004), for instance, revealed many employees to be bored, lacking commitment and looking for another job. What more relevant and interesting, pay actually came fifth amongst the reasons provided by respondents for leaving their jobs, whereas the main reasons were:
- Lack of motivating and compelling jobs and no opportunity for advancement – which were actually considered by Herzberg motivating factors,
- The absence of prospects for promotions,
- Lack of a challenging work,

- Desire to work in a more exciting place,
- The hankering for performing a more varied work.

These findings are actually consistent with those emerged from the above-mentioned National Training Awards Survey (2010) and altogether support, to some extent, the conclusion reached by Herzberg and other Authors about the effects, just limited to the short run, capable of producing salary and salary increases on motivation.

Some evidences supporting this idea are also provided in practice by some exceptional events. Consider, for instance, the case in which a person inherits a large sum of money or wins a great lottery prize, many people in such a situation continue to work or decide to start-up their own business; clearly their motivators are achievement, responsibility and growth. Their self-fulfilment and their main motivations are clearly mostly provided by their work rather than by money, which could then be considered as a mean to an end rather than as an end itself (Longo, 2010).

Although each of us would possibly be pleased to experience such a situation, it is very likely that after a while just spending the money won in the lottery or received in the form of a legacy, will result to be boring and not that exciting for many.

Money is clearly an important personal driver to achieve a decent and comfortable life-style but, as we have seen, once this objective has been attained, money motivation power is destined to waning.

It might be interesting to point out that, in contrast with what claimed by Herzberg, nearly a century ago, Frederick Taylor (1917) had strongly supported a transactional theory underpinned by the idea that people just work for a financial reward, that is, money.

Studies carried out later by Mary Parker Follet (1926, cited in Graham, 1995) and Elton Mayo (1949), however, claiming that people are mostly and mainly motivated by the "social factor", had essentially come to conclusions very similar to those reached by Herzberg.

Herzberg's studies were not limited to the acknowledgement of financial rewards as hygiene factors; the two-factor model related investigation in fact also allowed Herzberg to identify what the truly motivators are.

According to Herzberg (1957), factors genuinely contributing to motivate staff are the work itself, recognition, responsibility, advancement in the sense of growth and achievement.

Herzberg's contribution to the investigation of the factors really having an impact on motivation, with particular reference to the importance of the intrinsic motivating factors, is particularly valuable, as well as is his contribution to the work enrichment movement.

He deemed the role played by intrinsic factors pivotal, claiming that the satisfaction of a job holder can be improved by:
- Job enlargement - horizontal growth,
- Job enrichment - vertical growth, and
- Job rotation.

He also suggested that managers should always treat their staff fairly in that employees are very likely to remember the effects of unfair treatment and to develop a "revenge psychology", which would not really be the best contributor to engage and motivate staff.

Very hardly the bonuses, benefits and/or salary increases paid by an organization to its staff could be able to compensate (here literally) the behaviour of a manager treating individuals unfairly.

It might be supposed that this could have nothing to do with total reward, but it could be actually hardly believed that the developers of the total reward concept, from Adam Smith (1776) on, were unaware of or ignored Herzberg's studies and investigations, not to mention that they possibly developed the total reward idea starting from Herzberg's study findings.

There are very good practical reasons for organizations constantly striving to motivate and engage staff. Fundamentally, motivation is aimed at improving employees' performance, which in turn will allow businesses to:
- Improve staff productivity,
- Gain and preserve competitive advantage,
- Reduce personnel cost and, ultimately, increase profit.

Many kinds of perks, salary and financial compensation in general, which are nowadays no longer perceived by staff like additional benefits, but rather like something the employer has to give them as a matter of course, are no longer effectively helping employers to retain and motivate high-fliers in particular and staff in general (Longo, 2010).

A good deal of academic studies, such as those carried out by Maslow (1954) and McGregor (1960), have provided evidence of the fact that intrinsic factors have a positive impact on motivation. Herzberg's study went towards this direction too and, some criticisms notwithstanding, his conclusions, which also support the central belief of the dignity of labour and Protestant ethic according to which "work is good in itself", have been, and are still considered today, extremely important.

Total reward is basically aiming at providing solutions helping organizations to attract, retain and motivate individuals by means of a wider and more effective range of options. The concept is based and relies on the synergetic multiplicative bundle effect principle rather than only on the effects produced by the financial means taken in isolation, which on their own have proved not to be that effective. And that is why Herzberg's study on intrinsic factors is still extremely relevant and important (Longo, 2010).

Despite their unquestionable validity, Herzberg's theories are not completely bullet-proof so that his theories have been subject to different kinds of attacks over the years.

One of the most interesting and partially justified criticisms to Herzberg's study relates to the lack of any attempt to investigate the presence of possible linkages between employee satisfaction and performance. Albeit the existence of such a link could be considered to an extent somewhat of natural, the presence of a causal relationship between satisfaction and performance is still today considered questionable for lack of adequate scientific evidence.

Another interesting criticism relates to the circumstance that staff diversity makes it difficult to exactly determine what satisfies and dissatisfies each individual. People are different, and not everybody, for instance, may want his job enriched. This is absolutely true but, to some extent, this remark should not be actually seen as a criticism or as a weakening statement of the Herzberg's model, even more so when applied to the total reward concept. What Herzberg essentially meant was stressing the circumstance that whether employers should strive to keep their employees engaged with cash, they would be unlikely to attain their aim. The one-size-fits-all tenet cannot clearly be considered a founding pillar of reward practices, not only by reason of staff diversity but also because it would be wrong assuming that the same individuals may want the same things at different times (Longo, 2010). Individuals' needs cannot be considered fixed and static, but rather as a dynamic variable influenced by the changing tastes and by the "diversity" factor. Herzberg conclusion was that there are a series of components or elements, namely satisfiers and dissatisfiers, which have a considerable impact on individual behaviour. It is up to employers, however, determining which of, and how, these elements have to be offered to employees according to their different current wants and preferences.

Total reward systems need to be adopted and subsequently adapted to individuals. Whether total reward would be applied to food, we would say that, once all of the ingredients preferred by employees have been identified, its aim would be that to offer employees a menu where the dishes they want to eat are absolutely listed. Total reward would this way be the restaurant where individuals could eat the dishes they really like to eat.

Once an overarching total reward system has been developed, there will surely be people preferring bundles whose composition is characterised by a more relevant financial component, individuals preferring bundles with a predominant intrinsic component and others desiring bundles nearly equally balanced. These preferences will, however, be subject to changes with the passing of the years.

Total reward concept and idea

Inasmuch as employers find it difficult to attract, retain, motivate and engage staff, they have found out, over the years, that there is no way to effectively and lastingly achieve such an ambitious objective by means of reward packages exclusively based on financial rewards. This has possibly ever, or almost ever, been true, but this can be even considered truer in recent times because of the changing content of the psychological contract. Individuals in fact are no longer expected to receive from their employer just a salary in exchange for the activities they carry out and the results they produce. They are nowadays expected that employers, in addition to financial rewards, will also offer them, for their contribution, opportunities to perform significant jobs and prospects for growth and development. Indeed, employees are also supposed to be offered a higher level of involvement in their job planning and to have their say in the design of the job they carry out and the way it is executed.

In general, it is very unlikely that such a difficult feat might be achieved just having recourse to one or two levers or initiatives, especially when the effects of these achievements have to be held and maintained over the years to come.

Total reward represents the most appropriate solution enabling employers to retain, motivate and engage people in that it is basically lying and relying on an array of different activities and initiatives which, combined one another in a perfect bundling-style, can effectually enable organizations to achieve their intended aims.

The idea of total reward, based on considering reward not only from its financial viewpoint, but also from its non-financial outlook, essentially extents the traditional concept and implications of reward management. Reward management is no longer intended as the management of pay and benefits, but in a more comprehensive, overarching extent where also training, development, involvement and growth have a pivotal role to play. These implications are actually very important in that this broader meaning of reward management also has an impact on the strategic aspect of reward management which, as a consequence, has no longer to be seen and investigated in the limited sense of strategic pay, concept which could even be conceptually difficult to support nowadays, but once again in a broader and more extensive way.

Total reward can basically be defined as the holistic good that a work experience can provide an individual. Strictly speaking, total reward packages can considered as a blended combination of both financial and non-financial rewards where the synergetic outcome provided by the bundling approach can enable employers to achieve long-lasting results in terms of retention, engagement and motivation. Beyond these more immediate aims pursued by total reward, can be also identified additional, less obvious objectives which employers might attain having recourse to this type of approach, namely supporting organizational strategy and culture.

To put it in a nutshell, total reward is what an individual receives for working with an organization (Kantor and Kao, 2004). More extensively, Armstrong (2010) defines total reward as a coherent and cohesive whole of all the elements of rewards linked together where are included all of the aspects that employees value the most. Similarly, Manus and Graham (2003) maintain that total reward “includes all types of rewards – indirect as well as direct, and intrinsic as well as extrinsic.”

Wilson (2008), highlighting the transactional aspect of this approach, defines total reward as the set of policies, programmes and practices providing an organization's staff "with something of value in return for their contribution to the mission and goals of the organization." This total reward definition stresses in particular the idea that employers resort to this approach in a bid to pursue a specific and well identified objective going beyond employees' retention and motivation, that is, to support the achievement and execution of organizational vision and strategy.

The sum of these definitions, each emphasising different but converging aspects of total reward, provides a remarkable insight of the overall aim and objectives of this approach, that is, providing staff with something valuable in exchange for their activity on the one hand and more clearly and fittingly identifying that "something valuable" on the other hand.

It is rather questionable the observation made on the subject by the IDS (2008), which maintains that, although what a total reward philosophy aims at emphasizing the most are the aspects mostly linked to the human capital proposition, "pay remains the foundation upon which everything else is built." Inasmuch as the role played by the financial aspect of reward is undeniable, it is undeniable as well that without the synergetic combination of the other components typically characterizing this approach, it would not be likely to produce the remarkable effects, if any, it usually enables employers to attain. Albeit financial reward remains paramount, defining it as the pillar around which everything else builds up could actually be considered fairly excessive.

Each of these elements can clearly play a particularly important and predominant role according to the circumstances, but this not necessarily entails that in all of the possible situations pay will invariably reveal to be the most decisive component.

The CIPD (2005) identifies as driven factors of total reward:

- The increasing costs faced by organizations for some types of benefits like pensions;
- The circumstance that individuals are more motivated by training and development opportunities;
- The diversity typifying workforce, which makes it difficult to find out what each individual values the most and
- The inconsistencies which are sometimes related to the messages delivered by the different reward options.

The change of perspective to a broader focus on the meaning of reward as a total reward system is presently the more and more prevailing by reason of the sensible changes and developments in the exogenous and more specifically commercial environment in which organizations are operating. Markets increasing competitive pressures in fact push companies to strive containing their costs while maintaining or, possibly, improving their quality standards (Longo, 2011). Not to mention the pressure coming from the labour market which business need to deal with too.

Total Reward

Components of total reward

Total reward essentially builds up on the idea that "there is more to rewarding people than throwing money at them" (Armstrong, 2010). The approach is essentially based on two main pillars, or rather, reward categories: extrinsic and intrinsic rewards.

Extrinsic rewards

Are considered extrinsic, all of those forms of reward that an individual receives in exchange for his/her work. This kind of rewards are offered to employees in a form which can be directly, objectively and quantitatively be understood, appreciated and measured by individuals, that is why this kind of rewards are also defined as tangible rewards.

In general, extrinsic rewards are included and detailed in the written contracts of employment and statements of particulars agreed by employers with employees. For this reason and to stress the causal relationship existing between the work provided by employees and the remuneration provided in exchange by employers, extrinsic rewards are also defined as transactional rewards.

Intrinsic rewards

Are intrinsic those types of benefits which an individual directly derives from the execution of the work and role he/she carries out within an organization. So important is the relevance of this specific form of reward insofar as it genuinely and effectively influences people actions and behaviour.

This basically is a form of "pay" which individuals are not expected to receive as a consequence of having been agreed in their formal written contracts of employment, but it is rather something employees are mostly expected to receive on the basis of the unwritten contract represented by the psychological contract. As suggested by Wright (2005), employees' discretionary behaviour is encouraged and favoured by those types of rewards which individuals receive in addition to those granted by the employment contracts they have signed. This is basically why some Authors such as Schein (1965) and Rousseau (1995), just to name a couple, stress the importance of the psychological contract as an element to be carefully considered when dealing with total reward approaches.

Individuals perceive and feel to be intrinsically motivated when they genuinely deem the tasks and activities they carry out both challenging and interesting and, at the same time, meaningful and useful for the attainment of their organization's objectives (Armstrong, 2010). Giving individuals the opportunity to actually influence the way they performs their tasks in order to achieve results and ultimately grow and develop, are even more effective ways to ensure individuals involvement, participation and, hence, encourage them to naturally go the extra mile.

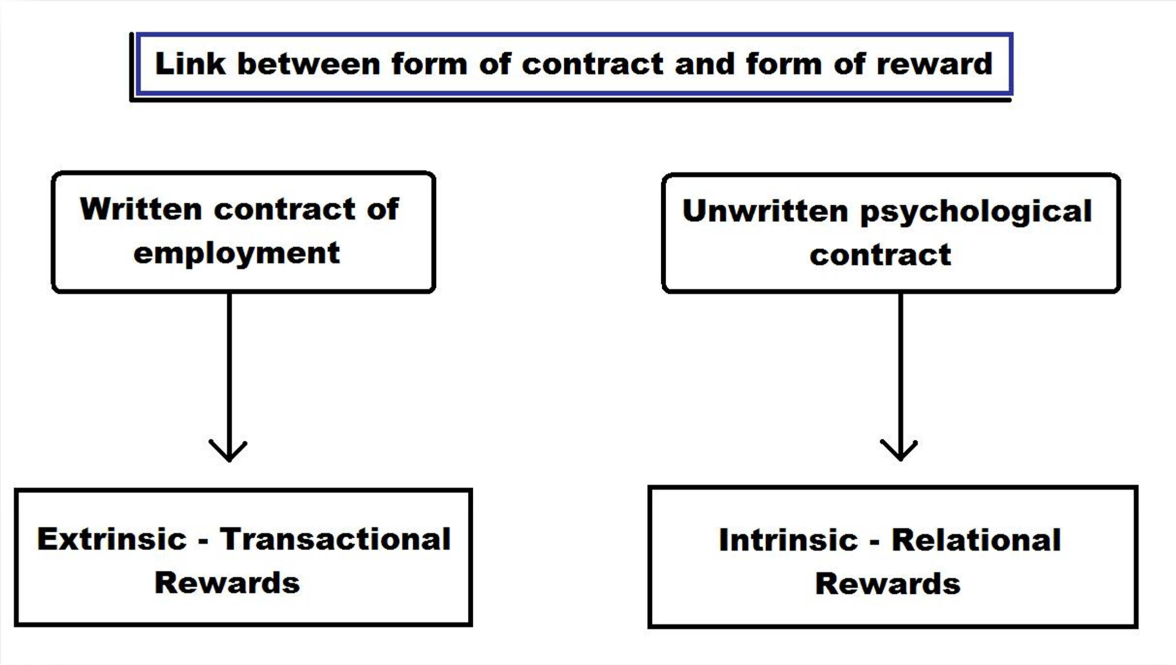


Table 7 - Links between form of contract and form of reward

As stressed by Armstrong (2010), another crucially important feature of total reward is integration. However, although the Author just refers to the process of horizontal integration, in order to fully achieve consistency and foster integrity within an organization, both horizontal and vertical integration should be pursued. Total reward in fact needs to be coherent not only with the other HR practices, but also with all of the organization's practices and strategies. Indeed, in order to support and be consistent with corporate culture, total reward should also aim at favouring and encouraging the behaviour which the employer is expected from its staff.

The importance of the intrinsic and extrinsic reward concepts is not just rhetorical in that these two main categories of rewards are genuinely representative of the real composition of total reward models.

Intrinsic rewards, usually associated and identified with the relational components of total reward, constitute the non-financial, intangible side of a total reward framework and can, according to Kessler (2001), be further divided into two different components: environmental rewards (or positive working context) and development-oriented rewards (or personal growth). Are usually included in the former component the contextual features where the work is performed and some additional characteristics like organizational culture and the management leadership style. As often as not, are included in the latter component the elements which are more specifically and differently directed to individuals. The reference is here to people aspirations and to providing them with the opportunities for training and development necessary to meet these aspirations (Perkins and White, 2011).

Total Reward

In order to total reward models resulting more genuinely directed at favouring individuals development and progression, amongst the elements included in the "personal growth" component of the model, internal and international mobility, as well as succession planning, should also be included. The addition of these options in the total reward offering clearly entails that these initiatives have been included in reward and HR practices, which will be perceived by employees as real opportunities for their personal growth. Yet, these practices will contribute to provide consistent and tangible evidence to employees that the organization is truly willing to invest in its human capital. Clear and shared practices aiming at fostering employee mobility within the same organization at local and global level as well, should also contribute to provide clear support to the importance that employers attach to individual development. The same objective will also be achieved putting in place succession planning practices enabling employers to identify high flyers and help them to gain the competencies and skills, not least leadership abilities, necessary to lead the organization in future times.

Extrinsic reward which, as seen above, is rather associated with the financial, tangible and quantitative measurable side of reward, is in general represented by pay, incentives and benefits.

Additional components of financial reward can either be granted in the form of non-cash benefits, such as company cars and healthcare, or deferred remuneration (whose financial benefits will be enjoyed at future times), such as pension schemes or equity share. These forms of rewards are usually offered by employers wanting to be, or to be perceived as, competitive in the labour market. The real aim essentially being that to attract and retain high-fliers and quality staff, whereas showing employees a real keen interest for their well-being (Perkins and White, 2011).

Intrinsic and extrinsic rewards can be clearly offered to employees in several, varied and ever-changing combinations. This entails that by means of total reward employers avail themselves of a completely flexible tool adaptable and adjustable according to the changing circumstances, that is, the ever-evolving wants and tastes of individuals.

As suggested by Zingheim and Schuster (2012), total reward approaches enable organizations to offer their employees a significant and appropriate value proposition. Differently blending the components of a total reward model, businesses can attract and retain the people they need. Some organizations, for instance, might find it difficult providing their staff with a positive working environment and, in order to balance their value proposition, might hence decide to put more emphasis on the financial component of total reward. Others businesses might balance the weakness of their financial reward packages by offering individuals more opportunities for personal and professional growth and development and providing individuals with genuinely positive working contexts. These solutions, however, to reveal to be effective should meet employees' wants and expectations.

The flowing process, culminating in total reward, can be illustrated as in Table 8

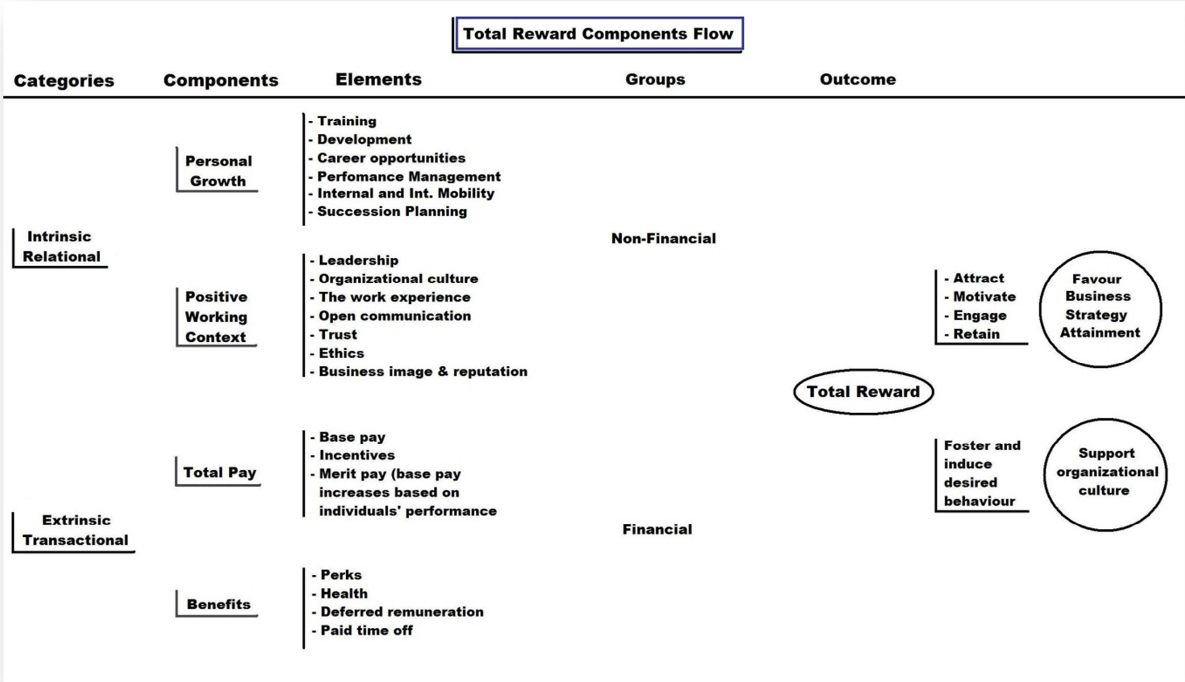


Table 8 - Total reward components flow

Total reward frameworks

Over the years a number of total reward models and frameworks have been designed and developed by different Authors and consultancies as well.

Although each of these models has its own peculiarities and characteristics, it can be said that all of them have much in common. Differences can be mainly associated with the different elements (or sub-components) of the main components rather than with the main components themselves. By and large, all of these models converge on the importance of, and include hence, factors such as: pay, benefits, career and learning opportunities, work-life balance and recognition; whereas just a few models include sub-components such as: involvement, leadership, performance management and corporate culture.

According to the CIPD (2005), the typical components of total reward, those which therefore constitute the levers employers should actually have recourse to in order to motivate, engage and retain staff, are basically four: financial reward, benefits, learning and development and the working environment. Several total reward frameworks and models have actually been designed and developed on the basis of these components and, especially in the past, these frameworks have been typically represented by four-quadrant diagrams describing and defining the transactional: pay and benefits, and relational: learning & development and working environment, components of the model.

Total Reward

In the model suggested by Armstrong (2006), beyond the distinction between tangible and intangible reward, has also been taken into consideration the distinction between "communal" and "individual" rewards. More in particular, the components of the quadrant related to "pay" and "learning & development" have been categorized as individual forms of reward, whereas "benefits" and "working environment" as communal components.

As anticipated above, a relatively large number of models have actually been developed so far, amongst these the Towers Watson (2012), Hay Group (2008), Zingheim and Schuster (2000), WorldatWork (2007) and Watson Wyatt (2010) seem to be the more interesting.

Towers Watson Total Reward Framework (2012)

The total reward model proposed by Towers Watson has been the subject of a sort of evolution over the years. From the traditional four-section quadrant appearance in which it was presented in 2007 it has in fact more recently evolved to a three-dimensional format.

This shows how dynamic total reward is and how it is subject to alterations, over the years, according to the changing content of the psychological contract.

The 2007 model suggested by Towers Watson was formed by two sections and four sub-sections.

The Financial Rewards section was subdivided into:

- ➢ Compensation:
  - ✓ Base pay and incentives, and
- ➢ Benefits:
  - ✓ Retirement, heath care, disability, life insurance and flexible benefits.

The model most recently elaborated by Towers Watson is divided into three categories and looks at reward from the employee's perspective:

- ➢ **Foundational reward** - offered in consequence of the employment relationship,
- ➢ **Performance based reward** – granted in exchange for superior performance and for individuals behaving as expected by the employer,
- ➢ **Career and environmental rewards** – provided to enable individuals to better manage and enhance their careers and life at work.

In this interpretation, total reward is seen as the "programmatic" part of an employee value proposition. Towers Watson model stresses the need to align total reward with organizational and human capital strategies in order to ultimately optimize results and drive employees' behaviour, Table 9.

Table 9 - Towers Watson Total Reward Model

Hay Group Total Reward Model (2008)
The Hay Group model of total reward flows from corporate strategy and aim to take into consideration both employer and individual wants in order to ensure a balanced approach. More specifically, the framework aims to achieve organizational objectives whilst ensuring staff engagement and motivation.

The model is formed by 5 pillars: **Guaranteed cash**, **Annual variable**, **Long-term incentives**, **Benefits** and **Intangible rewards** (Table 10).

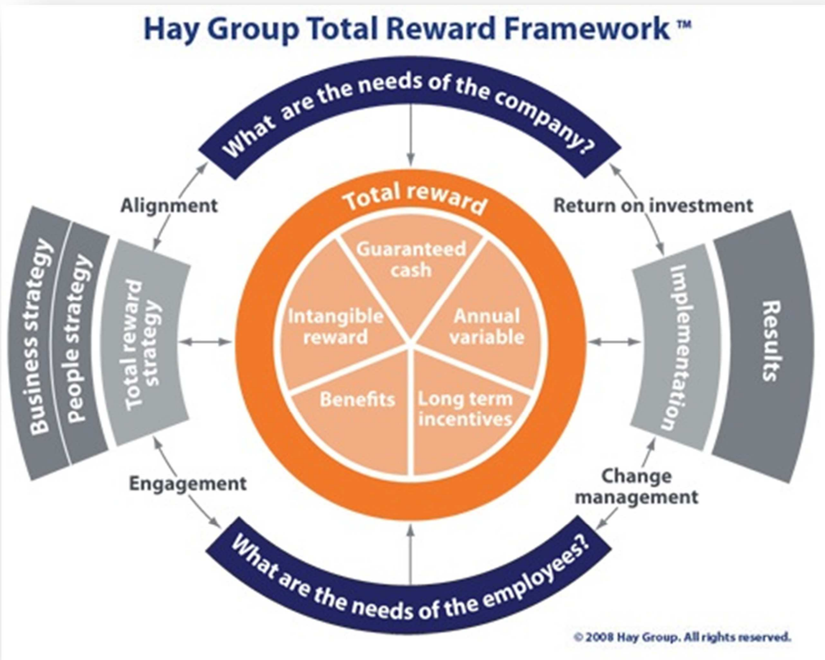


Table 10 – Hay Group Total Reward Model

It does not go unnoticed that, of the five listed components, four are referred to financial reward; which should not necessarily entails that intangible-rewards-related aspects and issues are not duly considered and addressed by this approach.

Zingheim and Schuster Total Reward Model (2000)

The model developed by Zingheim and Schuster (2000) is based on four components and twenty elements.

Differently from the others models, where in general a 2:2 relationship can be identified between financial and non-financial components of the framework, and in contrast with the Hay Group Model, where four elements of the five composing the model are referred to financial rewards, this framework is formed by three components of non-financial reward and only one component of financial reward.

The model is described in Table 11.

Zingheim and Schuster Total Reward Model

Total Reward component	Element
Individual Growth	- Investment in people - Development and training - Performance management - Career advancement
Compelling Future	- Vision and values - Company growth and success - Company image and reputation - Stakeholders - Win-win over time
Positive Workplace	- People focus - Leadership - Colleagues - Work itself - Involvement - Trust and commitment - Open communications
Total Pay	- Base pay - Variable pay (cash and stock) - Benefits or indirect pay - Recognition and celebration

Table 11 – Zingheim and Schuster Total Reward Model

Total Reward

The WorldatWork Total Reward Model (2007)

The framework developed by WorldatWork takes into consideration the internal contextual factor, that is, HR and organizational culture and strategies, as well as some elements of the external environment likely to affect total reward practices, such as regulations and competition pressures.

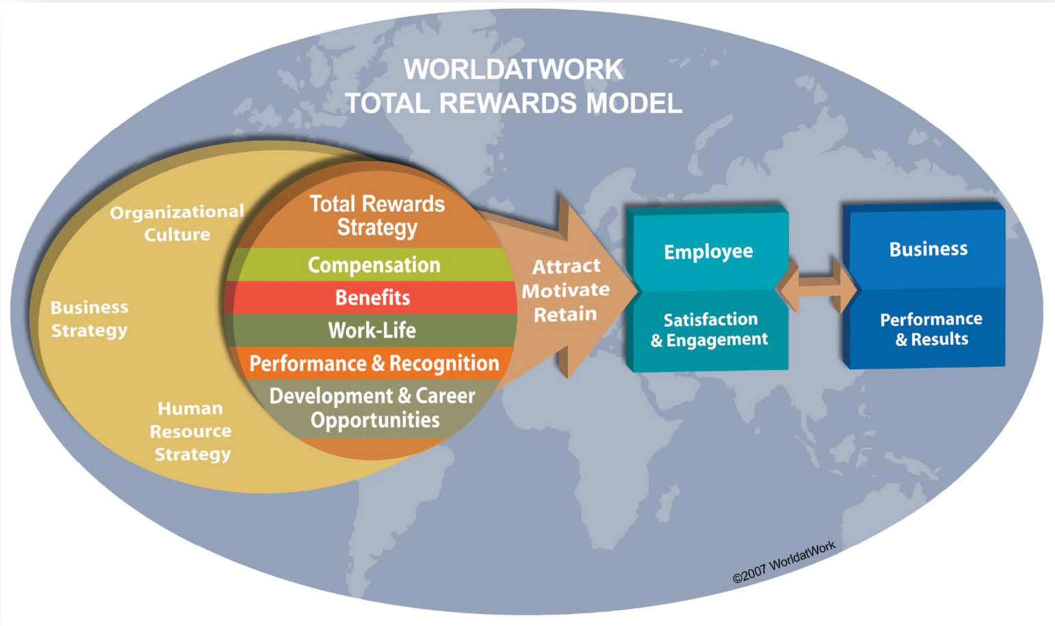


Table 12 – WorldatWork Total Reward

The model is built over five pillars, not considered mutually exclusive, which are:

Compensation

Fixed and variable pay provided by the businesses to their employees for the time, efforts and skills they dedicate to the attainment of the organization's objectives.

Benefits

Supplements that a firm provide to individuals for their and their families security, such as income protection and retiring programmes.

Work-Life

Usually work-life programmes are intended and introduced as policies enabling employers to reach a better work/life balance. Noticeably, WorldatWork mention work-life practices as a means to enable individuals to be successful both at work and home.

Performance and Recognition

Performance

Performance is intended as a specific means to an end, that is, align individuals and team efforts to organizational achievements and success.

Recognition
Aiming at encouraging and reinforcing the behaviour of individuals genuinely contributing to organizational success, with cash or non-cash awards, this objective is attained by the introduction and implementation of programmes aiming to "acknowledge employee contribution immediately after the fact."

Development and career opportunities
Development
Employee development is pursued by offering to individuals practical experiences enabling them to improve their capabilities and skills. At the shop floor level development aims to sustain individual performance, whereas at management level it aims at engaging managers and leaders to enhance their organization people strategies.

Career opportunities
This can practically be seen as an element in support of succession planning. Opportunities for growth and career advancement are favoured internally also in order to nurture talent and being able to fill senior, key positions from within the firm.

The Watson Wyatt Total Reward Model (2010)
The framework developed by Watson Wyatt flows from corporate strategy through human capital strategy and then to total reward.

The model essentially relies on three pillars:

Fixed-rewards costs
In this component of the model are included the fixed costs of personnel such as base pay and pensions schemes costs. A particular consideration is also paid to the importance of each role carried out within the organization, whose assessment is carried out by means of the job evaluation exercise.

Performance-based reward
This pillar of the model is concerned with the variable labour costs such as stock options and bonuses. These are assessed and determined according to the contribution provided by each individual to the success of the business.

Environment-based reward
Are included in this component of total reward all of the elements relating to intrinsic rewards, hence both those associated with the work itself and those related to the working environment. These are clearly considered as part of the employment deal too.

The effectiveness of the model suggested by Watson Wyatt is based on the correct and widespread use of communication, great flexibility and on an extensive use of technology.

The prior trend according to which total reward frameworks were more widely represented by means of four-quadrant diagrams tends the more and more to be replaced by more complex and sophisticated forms of charts. This should not indeed come as a surprise, whether we consider that many of these models actually take into account not only the essential components constituting the core of the framework, but also the contextual factors such as business and HR strategies, organizational culture and the likely desired effects expected by employers from this mix of factors on business results.

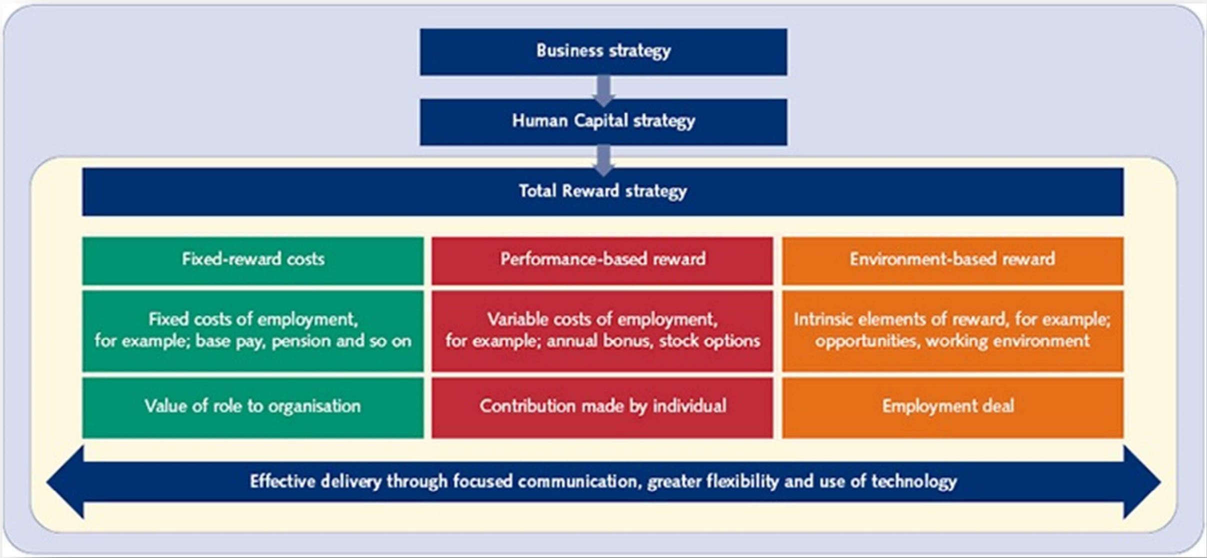


Table 13 - Watson Wyatt Total Reward Model (2010)

Strengths and weaknesses of total reward frameworks

The ultimate purpose for organizations developing and implementing total reward practices is to achieve competitive advantage. Albeit each component of a total reward framework is clearly of paramount importance, in that it is just from the power of the additive, synergetic effects produced by the combination of all of the factors composing the model that derives its effectiveness, there are some aspects to which employers should pay particular care and attention.

Whilst intrinsic components of total reward frameworks, that is, personal growth and positive working context, are difficult to imitate and replicate by competitors in fact tangible elements, as pay and benefits, are prone to promptly and easily be duplicated by other employers. This is, in practice, an additional and strong reason for intangible aspects being broadly acknowledged as the likely components of the frameworks most properly and effectively enabling employers to attain competitive edge.

When designing and developing total reward systems, employers should therefore predominantly focus on the intangible components of total reward frameworks and, in particular, on the working environment component, whose elements are the most difficult to imitate and replicate in practice.

Over the mid- and long-term, in order to achieve and maintain competitive edge, organizations should strive to improve their staff perceived value of the intangible elements of the total reward systems they have introduced. This is not indeed an easy task for employers which not only need to come up with a series of appropriate and effective initiatives, which need hence to be properly implemented, but also have to do whatever they can for employees appreciating and valuing their proposition (Longo, 2011a).

Intangible rewards are clearly “intrinsically” rather than “extrinsically” motivating; however, although managers can contribute to their attainment, by definition, they cannot directly provide intrinsic reward (Torrington et al, 2008). An example of intrinsic motivation is represented by an employee putting extra effort into a project simply because he/she finds it interesting, compelling and/or enjoyable. This may result on the attainment of a perceived considerable level of satisfaction by the employee concerned, but this does not necessarily result from any direct, specific management action.

Notwithstanding, this does not mean that managers have by no means any role to the extent of inducing and wielding influence over employee motivation. Inasmuch as employees join organizations but leave their managers, manager role cannot completely be considered irrelevant to any employee behaviour.

Managers can, and definitely have to, try hard spreading a culture fostering high-performance in a bid to induce and generate intrinsic motivation. This will in turn account for individuals considering the work experience as intrinsically rewarding. It is in fact the existence of such and similar circumstances which most positively impacts staff engagement and motivation, in the short and long run as well. An additional activity that managers can certainly perform, in order to favour individual intrinsic motivation, is differently designing their staff jobs in order to make the day-to-day activities more enjoyable and better understandable in terms of scope and significance.

All in all, on the subject of weaknesses and strengths of total reward, it can hence be concluded that the financial, extrinsic components of reward, which can be easily and relatively quickly replicated, represent the model’s weaknesses, whereas the non-financial, intrinsic components of the model, which can hardly be replicated, can be definitely considered as the components contributing strength and effectiveness to the system.

Albeit businesses leaders should do whatever they can to avert their organizations’ practices to be unveiled, it is ultimately the power of the best fit approach which of its own should contribute a natural protection to the business practices. One of the most, arguably the most, important underpinning tenet of reward practices and HR policies in general is that practices have to be tailored and designed according to the circumstances. Effective and bespoke practices working within an organization are hardly likely to revel as effective in contexts different from that were they have been designed, developed and shaped according to the contextual factor. Organizational strategy, but clearly even more corporate culture, have both a remarkable role to play to this extent and the attempt of replicating total reward practices in a bid to attain the same successful results achieved somewhere else could clearly reveal to be a massive blunder.

Although it is, in general, advisable to prudently veil and protect the reward practices developed within a business, it is even much more important to keep a high degree of confidentiality and secrecy over the process and the approach used to design, develop, implement and shape them. These processes can actually communicate much more than that which can be communicated by the content of the policies. Moreover, policies evolve over time and are hence dynamic and subject to frequent assessment. Knowing how to properly develop and review them is clearly of paramount importance too. These capabilities and know-how can really be considered of paramount importance for an organization gaining in practice competitive advantage.

This conclusion is also supported by Heneman (2007) who, commenting on the intensifying frequency with which employers are having recourse to total rewards programmes, suggested that "the specific practices companies use to implement total rewards programmes that is, to design, deliver, executive, and evaluate them – play a critical role in the programmes' effectiveness."

How to develop, design and execute a total reward system

Developing, executing, managing, and reviewing a total reward programme is everything but a straightforward process. The procedure requires meticulous attention and care throughout and neglecting even one of the aspects which should instead be carefully considered for the successful implementation of the programme could reveal to be remarkably detrimental and ultimately resulting in a complete, irreversible failure.

Henemen (2007) reports three cases of total reward programmes whose introduction failure was directly caused by the fatal mistakes made during the design and development phases. The total reward programme of a chemical firm miserably failed, accurate and long preparation notwithstanding, because during the first year of its introduction the firm financial results were negative. The programme had been communicated putting great emphasis on the profit-sharing cheque it should have enabled employees to receive. In practice, however, because of the unexpected difficulties caused by the exogenous adverse circumstances, in the end the staff did not receive any cheque. The resentment caused by this occurrence within the workforce led to the programme withdrawal, circumstance which could have been avoided if it should also have been communicated to employees that the programme would not have been operated during downturn or slowdown periods.

Similarly, a government agency in the U.S. introduced a programme linking salary increases to a pay-per-performance scheme whose assessment should have been carried out by means of a formal appraisal system. Unfortunately, or rather maladroitly, the performance appraisal system had not yet been implemented before the launch of the total reward programme and managers were obliged to assess their staff performance as they could, unable to rely on an objective measurement tool. The imprudent use of this unstructured, makeshift assessment approach was perceived by employees as unfair and, once again, the scheme had to be abandoned.

In another case, a total reward programme had been introduced in a plant of a heavily unionized business having several factories in different geographical areas. The success consequent to the introduction of the total reward scheme in the pilot factory encouraged the business management to replicate the model in the other factories. The lack of consultation of the union representatives in each of the other plants, however, led to a series of unexpected difficulties emerged because of the unions harsh opposition to the scheme introduction (Henemen, 2007).

The glaringly obvious deduction emerging from these examples is that in order to avoid failures, drawbacks and massive waste of money and resources, it is of paramount importance paying extra care and attention during the design and development phases. The most likely risk being that problems emerging during the execution phase could possibly no longer be effectively addressed and properly managed.

The project management team

In order to confer the programme the importance and credibility it deserves, the first step should hence be represented by designating a project management team in charge of developing and manage the project's phases. Careful consideration should also be paid to the appointment of the Project Manager who necessarily needs to be a senior, respected manager, ideally a HR Manager with extensive experience in total reward (Henemen, 2007). It is likely that in small to medium organizations there could not be senior managers acknowledged and credited with such a technical competence. In these cases, employers could decide to appoint the most representative and credible manager as sponsor of the project and a manager or specialist having the technical expertise as a project manager. A valuable option could be to appoint the senior manager as the project manager and the technical expert as his deputy.

However, as maintained by Heneman (2007), equal careful consideration needs to be paid to the appointment of the rest of the project team. Business leaders should ensure that the necessary expertise and skills are considered and involved in the project development. Ideally: payroll, employment law, finance, tax and reward specialists as well should be all part of the team. In addition to these kinds of specific technical expertise, employers should also ensure that individuals skilled in practices and programmes development would be involved.

Small organizations could also consider to entrust one or two internal managers with developing the project and have recourse to external consultancies or specialists for the technical advice they might need on specific fields they do not have any available expertise within their firms. Whatever the project team composition, the golden rule of clearly determining, since the very beginning, each project member responsibility, role and authority needs definitely to be applied and respected.

Indeed, the appointment of a Project Manager and of a project management team more than the first stage of the process can be deemed as a sort of pre-stage or, to put it another way, as a mandatory prerequisite necessary to ensure that the right competencies and the adequate level of credibility are put in place before the real process starts.

Data collection

This process can actually be carried out in different ways, but what matters the most is that, whatever the way identified to proceed, the method has to be considered as a structured and predefined flow where some precise and pre-identified steps cannot really be missed and necessarily need to be carried out. A clear route and direction, therefore, needs to be drawn since the very beginning.

In order to design and develop a consistent total reward system and ensure its successful introduction and implementation, it is crucially important and mandatory prerequisite to gather as much data as possible about and from the workforce in that, as we have seen, individuals are different and have different wants. It would, hence, be practically impossible for an employer being able to design and develop successful and consistent total reward systems without having previously gathered and analysed such data.

Information can be collected having recourse to a wide variety of initiatives: face-to-face or by means of questionnaires. Amongst the former large group methods and focus groups clearly are the most used and effective as well. More in particular, large groups, putting managers and staff together, could be used to let managers understand the real concerns of staff about the mechanism of the process and gather employees' ideas and suggestions about the best way to execute the system once introduced.

In regard to focus groups, Heneman (2007) properly suggests conducting them separately for managers and employees. Depending on the type of data which need to be collected, focus groups can be preferable to large groups in that employees are likely to express more freely their preferences and wants if managers are not attending the meeting. Additionally, with specific reference to reward, it is likely that during the meeting managers could refer to some kind of perks and benefits which are not, or are only in part, accessible to employees, circumstance which could generate tensions during the meetings.

Both large group and focus group approaches, beyond the fact of enabling the business to gather relevant and useful information, are clearly also effective means to give voice to employees and, hence, ensure their genuine involvement in the process. As maintained by Heneman (2007), focus groups can also contribute "to generate survey items and test pilot surveys." Individuals invited to the focus groups have to be significantly representative of the people to whom the scheme is directed.

Employee surveys conducted by means of questionnaires can indeed be considered valuable tools to investigate individual preferences about reward too. Since they are usually anonymous, the risk is that findings provided by this type of investigations do not enable employers to discern preferences expressed by employees from those expressed by managers. On the other hand this type of surveys usually enables businesses to reach a higher number of individuals, potentially the entire workforce. Yet, surveys will surely reveal to be effective tools to gather more specific information about the perceptions of staff towards rewards and the packages they receive. In order to be effective, questionnaires have to be craftily devised and need to potentially enable employers to gather information about individual perspective and outlook concerning all the aspects of reward, namely both financial and non-financial.

A combination of face-to-face and by-questionnaire investigations would represent the best approach. Face-to-face investigations will enable employers to gain a first insight of manager and employee concerns and thoughts about the subject, whilst providing valuable hints and tips for devising more useful and comprehensive questionnaires which will enable in turn organizations to gain an in-depth knowledge across the whole business.

Also the examination of the current rewards practices and of the filled forms eventually already available, for instance those containing records of performance appraisal meetings, can be useful to the project team in order to determine staff attitude towards total reward.

Heneman (2007) also suggests gathering information by means of benchmark surveys carried out amongst successful organizations of the same industry. This method should in any case be used with extreme caution. The information gathered in this way could enable employers to gain knowledge and understanding of new methodologies and techniques; in the light of the best fit approach main tenet, however, employers have to be conscious that replicating practices which have revealed to be effective in other organizations, just because of this circumstance, can actually be sorely dangerous. Although the Author suggests this activity in order to find out if these practices could merit to be adopted in any other given organization, which entails consciousness and awareness of the risks associated with this method from the side of whom is performing the analysis, it is essentially rather unlikely that managers of different organizations could be completely able to fully understand the reasons behind the decisions made by other employers. It would require in fact having a broad and in-depth knowledge of competitors' strategies, culture, practices and business objectives.

Gap analysis

Albeit all of the above outlined steps are genuinely part of a total reward system development procedure, they can actually be considered preparatory to the very first official phase of the process, that is, the gap analysis. The main objective of the gap analysis is to depict a faithful picture of the current state of play, in terms of the reward system existent within an organization and contrast it with the desired state.

At this stage, it can also be very useful carrying out a literature review, the more the project team knows about total reward, reward management and reward practices, the better it is. In order to make informed decisions knowledge is definitely of paramount importance; specialized websites, journals and books can, hence, reveal to be absolutely beneficial, as well as the production of an assessment report. Before doing so, the project team should review the data gathered and ascertain their comprehensiveness. In case further investigation should be considered appropriate, for instance by means of additional employee interviews, it should be carried out accordingly (Heneman, 2007).

The first phase can, at this point, be concluded with the identification of a "compensation philosophy statement", which should be put at the basis of the future reward strategy. This statement should help employers to identify: the values and behaviour that should be rewarded within the business, the types of reward which would work better in order to achieve this objective, how the total reward system would actually be funded and all of the other questions concerning communication, unions participations in designing total reward practices, if any, and so forth (Heneman, 2007).

Define total rewards components

Now that the project team has gained a thorough knowledge of employee wants and has prepared a compensation philosophy statement, it is time to identify the components of the total reward system which have to be offered to the business staff. If the previous phases of the project have carefully and thoroughly been carried out, this stage should not reveal to be particularly problematic.

In order to include all of the relevant elements and avoid missing some of them, using an empty traditional four-quadrant diagram and bit by bit filling it might probably help. Of course, amongst the components of the total reward system equal attention to pay, benefits, personal growth and the working context has to be paid.

The challenge at this stage is mainly represented by linking employee wants and expectations in terms of employer proposition and employer aims and requirements about individuals' behaviour. Furthermore, whilst some relational components of reward such as, for instance, learning and work-life balance are more easily identifiable and, hence, manageable by employers, some others, namely those related to the work context, such as corporate culture, are subject to change over time and have more widespread implications, so that actions and activities aiming to eventually achieve quick-win/quick-fix results can, in such cases, clearly turn to be more difficult to plan and implement (Armstrong, 2010).

The same necessity of balancing individual and organization needs arises when it is time to identify the relational components of reward. Whether elements such as career development and training, for instance, represent clear forms of reward for employees, who clearly perceive their worthiness, the benefit of these types of rewards might appear less obvious to employers (Heneman, 2007). For organizations the circumstance an employee might gain additional skills will be perceived as valuable only whether these would enable employers to gain new abilities which competitors cannot imitate and reproduce. It is, indeed, the existence of such circumstance which will actually enable a business to gain competitive edge (Barney and Write, 1998). In order to meet businesses' and individuals' needs and expectations employers should, therefore, essentially offer individuals opportunities for growth that these value but that, at the same time, help organizations to attain their intended aims and objectives (Henaman, 2009).

Top and line management support

The role of top managers in supporting the introduction of a total reward system, as well as of any other new initiative within an organization, is absolutely crucial. In order to ensure that the new system is accepted by all of the organizations staff, top managers have to clearly and visibly back and foster the initiative. On doing so, as averred by Heneman (2007), they need to consider that "action speaks louder than words", so that their support has to be convincing and their actions coherent with their words. In such circumstances, therefore, managers cannot really afford to talk the talk but do not walking the walk.

For the successful introduction of a total reward system employers also need the support and efforts of the overall organization management, top and line managers as well. Line managers are typically those who spend most of their time with employees, those who better and genuinely know individuals, those who on a regular basis speak with them and build interpersonal relationships, so that employees know and trust them. As such, line managers definitely represent important and precious employers' allies and partners in strategy and policy execution. Their full and genuine support and cooperation for the successful implementation of a total reward system can definitely be considered as a mandatory prerequisite (Longo, 2011b). This consequently entails that whether line managers do not consider the new total reward system valuable and adequate they could at best pay lip service to its implementation and at worst completely ignore its importance. Employers have to do whatever they can to avoid that any of these circumstances could ever occur. That is why organizations' managers have to be involved, since the very beginning, in the process, because this is the most effective and practical way for them feeling that the new total reward system is actually fruit of their work and activities too.

Inasmuch as line managers involvement is of pivotal importance for the successful introduction of a new total reward system, it is crucially important their broad and deep knowledge of the system, of its mechanism and of the way it actually needs to be operated. Line managers cannot really improvise and get along in such a delicate circumstance without the appropriate knowledge and skills. Employers have to consequently take extra care with line managers training in order to avoid jeopardising the attainment of the intended results (Longo, 2011b). Training sessions have to be provided before the introductory phase of the system, managers need to be ready to answer questions and support the programme before it is formally introduced to the workforce.

Formal introduction and execution of total reward systems

Once the system has been fully designed, the project team has decided the components which fit the organization and full support from the organization management has been secured, there is still a paramount activity which needs to be carried out, namely the launch of a communication campaign aiming to explain to the entire workforce the reasons for the introduction of the new programme.

More in particular, the mechanism of the programme and how employees will benefit from it need to clearly and thoroughly be communicated having recourse to all of the possible communications means which are usually used within the business, such as posters, brochures, intranet and if possible a specific website where individuals can also post questions to which answers need to be provided as quickly as possible.

Findings of a research carried out over thirteen different organizations across the U.S., gathering responses from 13,000 individuals, revealed that on the one hand the more staff know about reward systems the more satisfied and, hence, engaged they are; on the other hand, the investigation also revealed that by and large employees know little or nothing about the reward systems put in place by their employer (Heneman, R. L., Mulvey, P. M. and LeBlanc, P. V., 2002).

Another relevant matter which employers should duly consider before the introduction of a total reward system, especially during grim economic periods, is determining how the system will be funded. It is widely recognized that the personnel budget represents the most relevant cost organizations actually have to face and the impact of a total reward system introduction could be quite remarkable.

Whereas some considerable savings can be achieved for the introduction of flexible benefits by means of a wise and savvy application of fiscal laws; in order to fund an overall system, employers definitely need to go further afield.

Heneman (2007) suggests, amongst the most effective ways of funding a total reward system: overtime, seniority and merit pay reduction and a progressive and slow headcount reduction. Whatever the means identified, what really matters the most is not let feel employees that the introduction of the new scheme is intended to cheat them, that is, that you are giving on the one hand something that you have taken from the other hand, basically offering them nothing more than previously offered.

Before officially launching the communication campaign, an important activity relating to the unions involvement needs to be carried out. In order to have their full support, employers should try to involve trade unions representatives as early as possible in the total reward programme development. Furthermore, having unions' officials contributed to the new scheme, they should feel truly committed to it (Heneman, 2007).

Multinationals and big corporations having branches in several countries across the world should also careful take into consideration cultural diversity. Introducing exactly the same programme in different countries would entail the conviction that the one-size-fits-all approach could work, whereas obviously it does not. To avoid jeopardising the successful launch of the system, firms deciding to design and develop programmes in their headquarters should afterwards adapt the pilot scheme to the different countries accordingly (Heneman, 2007).

Total reward schemes execution

The system is now ready to be introduced and executed within the organization. According to the circumstances, rather than deciding to suddenly change the overall reward system, employers could decide to progressively implement the new scheme. In terms of change management, it could be said that instead of a transformational, big bang approach to total reward an incremental approach could sometimes be considered preferable. The final aim is to gain employee trust by means of quick-win, win-win initiatives. Gradual change should concern both financial and non-financial initiatives, for instance the introduction of flexible benefits if these were not previously offered and the introduction or improvement of work-life balance policies (Armstrong, 2010). The combined introduction, albeit progressive, of both financial and non-financial form of rewards will help employers to sustain the underpinning idea and concept at the basis of total reward.

Once a total reward system has been introduced its regular review is clearly necessary. Individuals wants are different and subject to changes; additionally, many studies confirm that individuals needs are also due to change with the passing of time and new generations are likely to prefer different kinds of reward vis-à-vis older generations. Some differences can also be associated with the different stages of human beings life, individuals' needs changes in fact can often simply be explained by the difference in age rather than in generational characteristics. The frequent review of a total reward system, hence, needs also to take into consideration a regular mapping of the employee population.

Considering that the system has been developed and introduced on the basis of a gap-analysis aiming to assess the current situation against the desired one, the review phase has to be carried out taking into due consideration where the total reward system is vis-à-vis where it should ideally be. This process can enable employers to change a total reward system without particular drawbacks when the need to adapt it to the new eventually emerging circumstances should arise.

Missing to regularly assessing and reviewing the system, can lead to the undesirable outcome of making it outdated and jeopardize the overall system functioning, ultimately producing irreversible drawbacks rather than producing the positive objectives that the approach basically aims and promises to attain.

Can Total Reward be considered as a HRM model of its own?

It can be argued that the total reward approach was born and developed as the ultimate means to help businesses to satisfy their most important needs, that is, attract, retain, motivate and engage staff not just by means of salary increases, bonuses, golden handcuffs or other kinds of financial rewards, but in a more effective and compelling way capable of producing long-lasting results.

The "birth" of total reward is mainly due to the ineffectiveness of exclusively-extrinsic-based reward systems and approaches. In fact, although employers have experienced, over the years, that money could reveal to be an effective means to attract talents and quality staff, they have, conversely, found out that money, of its own, cannot help them to retain and motivate individuals, if anything in the mid and the long run.

Furthermore, firms also need to deal with the changing labour market conditions, which make it pretty difficult for them to recruit, retain and motivate the staff they need without granting them pay level increases. As suggested by Torrington et al. (2008), in such a situation, employers could either decide to rely on fewer more highly paid people to carry out the required work more effectively and efficiently or capping salaries or simultaneously look for other ways of rewarding staff appropriately. It is just the latter approach which has prevailed and which has led employers to opt for the "total reward" option.

Total reward can hence be considered as an additional means to an, or rather, to "the" end, namely the attainment of an organization intended strategy.

As for HR practices in general, also for the development of total reward practices the one-size-fits-all method can considered utterly unsuitable.

As we have seen earlier, one of the most important features of total reward is that it is based on the multiplicative and synergetic effect produced by the bundle approach, which is actually at the basis of all the HRM models. Terms as alignment, motivation, policies, best/right fit and bundle are actually keywords common to HRM models and total rewards models as well.

When dealing with total reward systems, as well as when making decisions about the most suitable HRM practices to adopt and implement within their organizations, business leaders and HR professionals can basically have recourse to a set of drivers available to them which they can and will differently use according to the different aims they want to achieve. During this process, employers should have recourse to all of the components available to them, albeit not necessarily to all of the elements composing each component. Nonetheless, the most difficult feat HR and reward professionals have to achieve is deciding and determining how and in which measure having recourse to each of these components, keeping in mind that each of them, taken in isolation, will not enable them to achieve remarkable results, if any.
Analysing each of the components of a typical total reward system in isolation, it clearly emerges that the total reward approach is not actually adding that much to what employers already know and can use. HR professionals are constantly striving to formulate and execute HRM policies and practices aiming to attract, retain, motivate and engage staff differently emphasising, according to the type of bundle they consider as the most suitable for their organization, the role of training and development, job design,

job challenge, flexibility, internal mobility and reward. More recently, particular attention and consideration has also been paid to corporate culture and business climate for the recognized impact these have on people behaviour and possibly on individual performance.

In its bundle approach, total reward is clearly similar to HRM models, which can be defined as a set of simultaneous and coordinated activities aiming to facilitate the attainment of business strategies. That is why total reward can basically be considered a HRM model of its own.

Analysing, for example, the People Performance Model (Purcell et al, 2003) it clearly emerges that it is basically relying on the pillars of training and development, working environment and reward in order to induce discretionary behaviour and increase staff performance standards. Essentially, the same pillars will also be identified analysing other HRM models like the Harvard Model developed by Beer et al (1984), the Warwick Model developed by Hendry and Pettigrew (1990) and other models as well.

Differently from some HRM models and frameworks, nonetheless, although as we have seen total reward includes every aspect which individuals value in the employment relationship, it does not provide visible links and details of the causal interrelations existing amongst the different components of the models, at least not in such a systematic way as HRM models in general do.

Armstrong (2006) claims that the total reward approach is holistic, its success relies on the use of all of the possible ways individuals can be rewarded and receive satisfaction from their work. Total reward, however, provides just the list of the ingredients which HR and reward professionals can use, but not the recipe explaining how to use and combine the different ingredients. But indeed these could and have to be formulated by HR and reward managers according to the changing circumstances and individual wants and expectations.

The People Performance Model developed at Bath University by Purcell and his colleagues (2003), just to cite an example, instead, clearly highlights:

- The effects of recruitment and selection to provide organizations with the abilities and skills they need,
- The role of pay satisfaction to motivate and incentivise staff, and
- The direct linkages between teamwork, job challenge and involvement to provide employees with opportunity to participate.

Albeit the role of salary to motivate staff can be considered questionable, it must not be neglected the circumstance that in a model where a bundle approach is used, pay can also definitely and effectively play a remarkable role, in this case in association with involvement and participation, to attain the intended and desired objectives. The model also defines the linkages amongst all of its components and the impact, influence and contribution each component is able to produce for the success of the overall process and the achievement of the intended aims.

Originally the analysis of this reasoning had led to the conclusion that, although total reward models could be considered sort of HRM models in embryo, they could not be considered to have a HRM model full status. This because they lack of an apparent structure in which all of their components are clearly linked one another in a systematic and logical order and relation (Longo, 2011a). This conclusion, on the basis of the founding assumption that total reward aims and objectives are similar to the HRM models aims and objectives, also posited that appropriately developed total reward frameworks could produce valuable effects and reveal to be even more rewarding tools for organizations themselves.

Indeed, these considerations might possibly be truer in the case of total reward systems represented by means of four-quadrant diagrams. In these cases, in fact, elements are just listed and grouped on the basis of their classification: financial, non-financial, individual and communal components, but no indication is provided about the structured way these elements could be used and eventually interact and support one another. Yet, employers could not obviously use all of the elements available to them in the same way with all of the individuals concerned.

On the other hand it cannot be denied that, amongst the different HRM models developed over the years, some are actually just concerned with the mechanism or the way a process should work rather than with providing a specific correlation between their elements and the objectives and aims pursued by means of their implementation. In some cases, even though if in an effective way, models are concerned with just describing the process to achieve the final end, but not with expressing which means should be used to successfully attain the intended objectives. An example of this is represented by the resource-based models (Barney, 1991; Wright et al, 1994 and Hill and Jones, 2001). These models have the unquestionable advantage of showing the clear relationship and linkage existing amongst businesses resources, their strategies and the achievement of competitive edge. More in particular, resource-based view approaches show how developing internal capabilities in an inimitable way helps to shape the most suitable strategies and hence attain competitive advantage, but the recipe to achieve this objective is not actually provided. Having valuable, inimitable and non-substitutable resources, whose competencies and skills can be deemed rare, can be considered as the final objective, the means to the end of achieving competitive edge, but the model does not provide indications about what employers should do to ensure their organizations human capital to gain such valuable features and characteristics.

One of the most, arguably the most, comprehensive and detailed HRM model currently available is the above mentioned People and Performance Model developed by Purcell et al (2003). This model, also known as AMO (Ability, Motivation, Opportunity) model, not only lists all of the components and elements necessary to induce employees discretionary behaviour and improve performance level standards, but also details which components, that is, initiatives and actions have to be used by employers in order to favour the desired behaviour and help individuals to gain the required skills. Indeed, not all of the HRM models developed so far are actually as descriptive and overarching as this.

These further considerations and the circumstance that total reward systems also tend to pay growing consideration to the contextual factor and to the cultural and strategic alignment of the total reward system, can actually lead to the final conclusion that total reward can be considered as an additional model of HRM.

Irrespective of the way total rewards systems are graphically represented total reward models encapsulate all of the typical HR models features and components. Although they do not establish and show a clear cause-effect relationship between employers' initiatives and their intended objectives, it can be anyhow posited that total reward models can actually be considered as HRM models of their own. In general, it could be said that what essentially differentiate them from the others is the role played in total reward models by financial rewards, which is clearly more relevant or rather more evident than that played in the other HRM models.

Indeed, there is a specific and well justified reason for total reward models not showing a specific correlation amongst the several components forming them, which is, indeed, consistent and coherent with the underpinning tenets put at the basis of the overall models. Individuals are different one another and have different needs which are, additionally, subject to change with the passing of time, so that it would be virtually impossible to draw a model equally valid and applicable for everybody. All of the components and elements are there but they need to be used and mixed accordingly. Total reward models can ultimately be considered as bespoke and tailored HRM solutions capable of fitting each individual wants and expectations and adapting to these and to the changing content of individuals' psychological contract over time.

The most relevant differences between HRM models and total reward models can actually be identified in their scope and to an extent range. HRM are mostly concerned with macro-strategies and try to come up with solutions meeting employer needs, that is, what to put in place in order to attain organizational strategy; whereas total reward models are essentially concerned with micro-strategies, trying to identify solutions meeting individual wants and expectations, that is, what initiatives have to be introduced and implemented in order to individuals being at ease within the business and more productive. The former shows the map and explains how to more ahead, the latter help to identify the path for each individual. Unsurprisingly, the set of actions and initiatives required to attain both aims coincide, meaning by that that for employers designing and implementing reward systems enabling them to meet both their and their employees' wants and expectations is actually an objective absolutely attainable in practice.

In order to gain HRM model full status, total reward systems need to be craftily designed and developed and, what matters the most, need to include a relevant number of elements, for each of their components, enabling employers to achieve their intended objectives by means of the multiplicative, synergetic bundle effect. Indeed, this also depends on the complexity of an organization and on the type of its employee population. Organizations characterized by a rather homogeneous generational population or, more in general, characterized by the presence of people having the same wants, might find it relatively easy developing less complex and less sophisticated, but not because of this less effective, total reward systems. It clearly depends on the circumstances.

As always happens in theme of practices, strategies and policies, the most difficult and crucial factor is represented by the implementation and execution phase. Even state-of-the-art total rewards models on paper can miserably fail whether not properly, consistently and effectively executed. So that extra care has to be taken by employers with this activity.

The overall process, from design to execution, could reveal to be particularly hard and resources consuming, but on the other hand it cannot neither be denied nor overlooked the circumstance that the stake is well worth the efforts and resources it requires.

It is very likely that the ever- and fast-changing exogenous context, which is also sensibly influenced by the general economic and financial conditions, will push employers to design and develop increasingly sophisticated and effective total reward models, where, differently from the past, the word reward will be the more and more associated with varied and varying meanings. In order to keep the pace, organizations need to take extra care with this aspect and constantly investigate and study the external and internal environment in order to timely come up with suitable and cutting-edge solutions.

Total Reward Statements

One of the most critical aspects directly associated with total reward systems implementation is definitely represented by communication. Employees, especially when their organizations are offering them a wide variety of both financial and non-financial rewards, tend to forget or pay lip service to the efforts made by their employers to offer them as many different forms of reward as possible. Sometimes, it can also occur that, for different reasons, individuals do not genuinely realize how vast the array of rewards offered to them by their organizations is. Total reward statements can definitely help employers to address this issue in that definitely represent the seminal means to which they can have recourse to in order to communicate and remind their staff the worthiness of their value proposition and of the individual take-up.

Although the introduction and management of total reward statements is time and resources consuming, all of those organizations having made the efforts to introduce them claims to be absolutely satisfied with the results they have attained.

What total reward statements are

Total reward statements are basically personalized documents prepared by HR and reward specialists for each executive, manager or each member of the staff in order to make these fully aware of the value and worth of the overall reward package they receive (Longo, 2011c).

What they contain

In order to provide individuals with a thorough and comprehensive knowledge of their overall reward package, total reward statements should contain details of both the tangible and intangible rewards offered by the business, including the perquisites offered under a flexible and eventually voluntary benefits programme. In addition to fixed and variable pay, hence, each total reward statement needs to contain details about pensions, private medical insurance, life assurance, shares schemes, company car, fuel supply, car's insurance, taxes related to car possession/use (where applicable), laptop, mobile phone, corporate gym, subsidised canteen, luncheon vouchers, etc. (Longo, 2011c).

Since statements also have to show and clearly state all of the elements included within the intrinsic components of a total reward system, they also have to provide accurate details of the coaching, training and development opportunities offered by the business to the individuals concerned (Ratcliffe and Evans, 2010).

As for the benefits linked to shares price, Silverman and Reilly (2003) stress the "educative process" that statements can deliver for making individuals understand, or not forgetting, that the value of their shares, and consequently of their organization, daily fluctuates up and down as the stock market itself.

Organizations offering their workforce flexible and/or voluntary benefits schemes have to include into statements these too, otherwise the documents would result somewhat of curtailed. Statements will reflect in such circumstances the choices made by each individual (Silverman and Reilly, 2003) and represent a good opportunity for employers to make employees aware of their own choices.

As maintained by Morgan (2009), data showed in the statements has to be as accurate as possible, albeit for some of them the identification of the exact financial value is everything but straightforward. For items such as sick pay, maternity and paternity leave, car parking and on-site cafeteria, for instance, it is clearly difficult to individually determine the financial impact for each employee. Moreover, this impact is very likely to be different from a year to another.

In addition to a benefits summary, TRS also usually contain an outline of the annual cost faced by the organization to provide total reward schemes and a chart illustrating the different components of an individual's total reward package (Silverman and Reilly, 2003).

Silverman and Reilly (2003) also point out the important role that total reward statements can play as effective means by which employers can promote the main components of the total reward programmes they offer to their staff. Such a move will certainly turn to be useful to employees not only to better understand the value of their overall personal package, but also that of each benefit forming it.

Why introduce TRS

The need for businesses having recourse to total reward statements actually arises in response to employee attitude towards the benefits offered to them by their organizations, which individuals usually tend to not value and appreciate. As argued by Rowley (2009), employees very often behave like "philistines" when it comes to recognize the real value of the benefits they receive. Statements are essentially designed and drawn up by employers in order to provide the entire workforce with clear and detailed information on "how much more the company provides for its employees than their pay" (Armstrong, 2009).

The need for total reward statements, nevertheless, is not only associated with the lack of benefits' understanding and appreciation, sometimes it can also be due to the individual genuine lack of awareness or knowledge of the impact perquisites actually have on their overall reward packages (Longo, 2011c).

All too often, employees simply underestimate the value of the overall reward package they receive just because some of the perquisites forming their reward package have little or no visibility. Findings of an investigation carried out by Towers Watson (Thompson and Milsome, 2001), for instance, revealed that in general employees estimate the impact of the benefits offered by employers to represent less than 20 per cent of the overall pay, whilst it usually represents between 30 per cent and 40 per cent. Likewise, a more recent survey carried out by Hay Group (2010) showed that a staggering 78 per cent of the investigated panellists estimated the value of the benefits they received as lower than 10 per cent of their overall reward package. Yet, a similar survey conducted by Hogg Robinson and the Prudential (Thompson and Milsome, 2001) estimated that a surprising 4.8 million staff benefitting of a corporate life assurance coverage were completely unaware of being entitled to such a benefit. In different contexts, periods and with different figures, all of these investigations, albeit not providing details about the reasons behind their findings, which basically cannot be linked to anything else than to the lack of communication and information, clearly show the general unawareness of employees of their overall reward package value.

The Benefits Employee Rewards Watch Survey 2009 has investigated the phenomenon more in-depth, trying not only to determine the dimension of this occurrence, but also the reason(s) for it to happen. The findings of this investigation essentially directly link employee unawareness of their reward package worth with employers not issuing TRS. The survey, carried out by Thomsons Online (2009) over 523 organizations, revealed that 70 per cent of employers reported that their staff were not fully aware of the real value of the reward package they received. This result matched with another important conclusion emerged from the same investigation: namely that the rate of employers not offering TRS amounted to a remarkable 70.02 per cent.

Empirical data gathered over the years invariably show that employee perception about their overall reward packages is all too often unreal and definitely underestimating the real value of what they actually receive. As claimed by Silverman and Reilly (2003) "this ignorance" of the benefits offered by employers to their staff was, and it could be added still is, not untypical.

The unawareness of the reward's exact value an individual receives from his/her employer clearly damages and weakens the perception of the worthiness of the overall reward he/she receives; total reward statements can definitely help to address the problem.

TRS can also enable organizations to implement a better and consistent benefits management system. By means of statements in fact organizations can gain a reliable and thorough understanding of the current rewarding state of play and, hence, a consistent starting point from which developing future changes to the overall reward package composition and system. This does not really represent a negligible benefit for employers.

In general, organizations consider of paramount importance that their staff understand the worth of the package they receive. Findings of a survey carried out by Vebnet (2009) revealed that businesses consider the lack of appreciation of the reward package they offer employees as the second most important problem associated with benefits, second only to the cost of meeting salary pensions schemes liability.

To whom are TRS addressed
As anticipated above, to achieve the intended objective that is making each employee fully aware of the value of the overall reward package he/she receives, personalisation is crucial. So that each statement should reach just the individual for whom it has been prepared.

Some organizations, just in order to cushion the work that such a personalised and bespoke kind of document requires, use to prepare TRS just for managerial and executive positions or, more generally, for those individuals and talents they have more interest to retain.

By and large, line managers tend to underestimate the value of their direct reports' reward packages, using to compare their staff basic salary with that offered by their competitors rather than considering and focusing on the overall value proposition (Silverman and Reilly, 2003).

Issuing TRS for each member of the staff rather than just for managers and high flyers clearly requires a much more demanding job and more considerable resources. It is clearly different drafting TRS up for a few dozens of managers rather than doing it for hundreds or even thousands of individuals, but the return on investment can be remarkable and well worth the efforts required.

The benefit organizations can derive from giving evidence of the perquisites offered to all of their staff are not limited to circumscribe line managers capriciousness, but can be priceless in terms of developing, strengthen and foster the employer branding image, as well as helping employers to retain staff in general and high flyers in particular.

To attain these objectives, nonetheless, the genuine cooperation of line mangers is key, so that these have to become the advocates of total reward schemes and total reward statements as well. In order to truly support these activities line managers need to appropriately know what total reward and TRS are so that, also in this case, providing them with the required training is of pivotal importance.

If line managers do not understand the mechanism and the way a total reward package is designed and operated they will not clearly be able to understand the value of their own reward package and let alone will them be able to explain the worth of this to their direct reports. Line managers cannot and do not have to act as barrier-makers, but rather as enablers. Nonetheless, making this possible mostly depends on employers (Longo, 2011c).

Which organizations could benefit more from TRS

In broad terms, it could be said that total reward statements are always useful for all of the organizations including in their total reward packages a considerable number of benefits either in the intangible/non-financial and/or tangible/financial components of the total reward systems they have designed and introduced.

There are, nonetheless, some circumstances in which TRS can reveal to be particularly effective and helpful.

One of these cases definitely is that in which organizations are experiencing unusual staff turnover. In this case it could be crucial and well worth it investigating if, amongst the main causes for that, the perception of receiving a poor reward is playing a role. In fact, very often staff turnover is generated by individuals' perception of receiving a weak reward package (KMPG, 2002).

Having recourse to TRS can additionally help organizations to emphasize the relevance and value of the reward packages they offer, they will unquestionably turn to be useful, by extension, to the firms aiming to foster their image of being the best in their industry. Statements will not certainly contribute to increase intrinsic reward packages’ value, but are likely to enable individuals to better understand their worthiness, which in turn could contribute to add additional significance to individual perception of the value of their reward.

As suggested by Lucas (2002), TRS could also play a relevant role in those organizations where a good deal of individual benefits and rewards are offered, but where, at the same time, the concept and idea of total reward are not adequately fostered. In this case, statements can enable firms to put order in their reward jungle. Putting together all of the tangible and intangible, flexible and voluntary benefits and clearly explaining their value will, very likely, contribute to do justice to the overall reward package received by every individual.

Statements, enabling firms to stress the value and cost of the benefits included in the programme directed to their employees, have revealed to be particularly useful for both those organizations offering their workforce flexible and voluntary benefits programmes (also during their pre-introduction stage) and for those businesses in the process of implementing substantial changes in their reward packages (Ratcliffe and Evans, 2010).

But this is not all, total reward statements have revealed to be particularly important for global organizations when implementing their total reward vision (Lucas, 2006). In this case, TRS enable organizations to thoroughly identify all the benefits and the reward design aspects across the geographical areas concerned. Having recourse to the statements will also help corporations to ascertain which source of data can make benefits management more straightforward in each of the country concerned, contributing to facilitate as such also the data management practices.

Statements can also definitely provide companies with new insight and clarity on the cost of benefits incurred worldwide and represent a good starting point for developing further investigations and analysis. Ultimately, statements can also enable corporations to globally establish the idea of total reward as a global principle (Lucas, 2006).

When should employers avoid introducing TRS

So crucial is considered the importance of showing reliable and accurate data in TRS that, in the event employers should only be insecure about their reliability, it is strongly suggested not to introduce them.

Another case when businesses could find it more appropriate to avert issuing total reward statements is after having completed the process of acquisition of, or merger with, other organizations. In these cases, since the benefits structures and payroll systems of the businesses concerned could be different, it will surely be better to collect and make comparable the data produced by all of the businesses concerned before issuing TRS.

Having recourse to total reward statements can also reveal being rather problematic in those cases in which the different kinds of benefits offered by an organization are managed by different external providers, whilst others are managed directly by the HR function. Of course the larger the number of perquisites offered, the more difficult will reveal to be issuing a unique statement (Pearce, 2009).

Employers usually tend to avoid introducing TRS also when they actually offer very little in addition to basic salary as well as when, broad and varied offer notwithstanding, take-up rates are rather low. Indeed, as suggested by Morgan (2009), in the latter case issuing statements could represent a very good opportunity, in anything, to foster the array of benefits offered by an employer.

In general, it is far better do not having recourse to total reward statements at all rather than issuing them filled with insecure and possibly wrong data (Christopher, 2009).

One of the most frequent reasons for firms not issuing total reward statements is because they represent a quite demanding exercise. Albeit technological developments can definitely help to cushion the blow, especially when designed and developed internally, drawing statements up for every employee obviously requires time and resources. Statements need to be updated at least annually so that also the maintenance factor has to be duly considered.

Employers absolutely keen to introduce TRS, but do not wanting these to impact their HR function workload, can also opt to outsource the overall activity externally accepting the considerable costs that this approach clearly implies.

With what frequency

Organizations should align the frequency they publish TRM with the frequency they change their offering or, for those organizations which have introduced flexible and voluntary benefits schemes, to the frequency they offer their employees the opportunity to change the composition of their take-up. Usually it happens once a year but it should not be forgotten that in some instances employers give their staff the opportunity to change their benefits take-up in coincidence with specific circumstances and events which may occur at a higher frequency. Statements should hence be updated accordingly (Longo, 2011c).

What means of communication

One of the most important decisions employers have to make when considering to introduce TRS concerns the identification of the format which has to be used to convey the desired information. Organizations whose staff work or have frequent access to a computer will arguably decide to have recourse to the corporate intranet or to a dedicated website. By contrast, it would obviously make no sense implementing online statements if all of the staff or, anyhow, a relevant part of it have no frequent online access opportunities.

Some organizations producing statements only for executives and senior managers, in order to emphasize and stress the exclusivity of the document and the top quality of the benefits offered, usually print TRS on superior thick paper contained into expensive cases, which certainly help to catch managers attention. In those cases in which statements are destined to the overall workforce and a hard copy is intended to be handed to each member of staff, a booklet might represent the most appropriate solution (Pearce, 2009).

Technological advances have clearly much more to offer to TRS implementation. Online statements can clearly provide a more intriguing and immediate overview of the reward package received by each employee who, if required, can by means of pop-ups and additional links eventually access further information or explanations about the statement content and structure. Additionally, online tools will definitely turn to be more environmentally friendly, cheaper and very straightforward to manage and update (Longo, 2011c).

Total reward statements template

The layout and structure of total reward statements may vary according to the form these are provided to employees. Statements made available to individuals by means of online systems might appear different from those provided in the form of printed paper. Notwithstanding, irrespective of the medium by means of which total reward statements will be made available to employees, a number of common headings and a mutual order for these to be positioned into statements can certainly be identified.

The essential sections and related contents of TRSs usually are:

- ***Introduction***
  - Covering letter
  - Employee personal details
- ***Total reward package at a glance***
  - Summary chart
  - Summary table
- ***Details of financial and non-financial rewards***
  - Financial rewards description and composition
    - Base pay
    - Allowances
    - Contingent pay
  - Benefits
    - Tangible
    - Non-tangible, including voluntary benefits

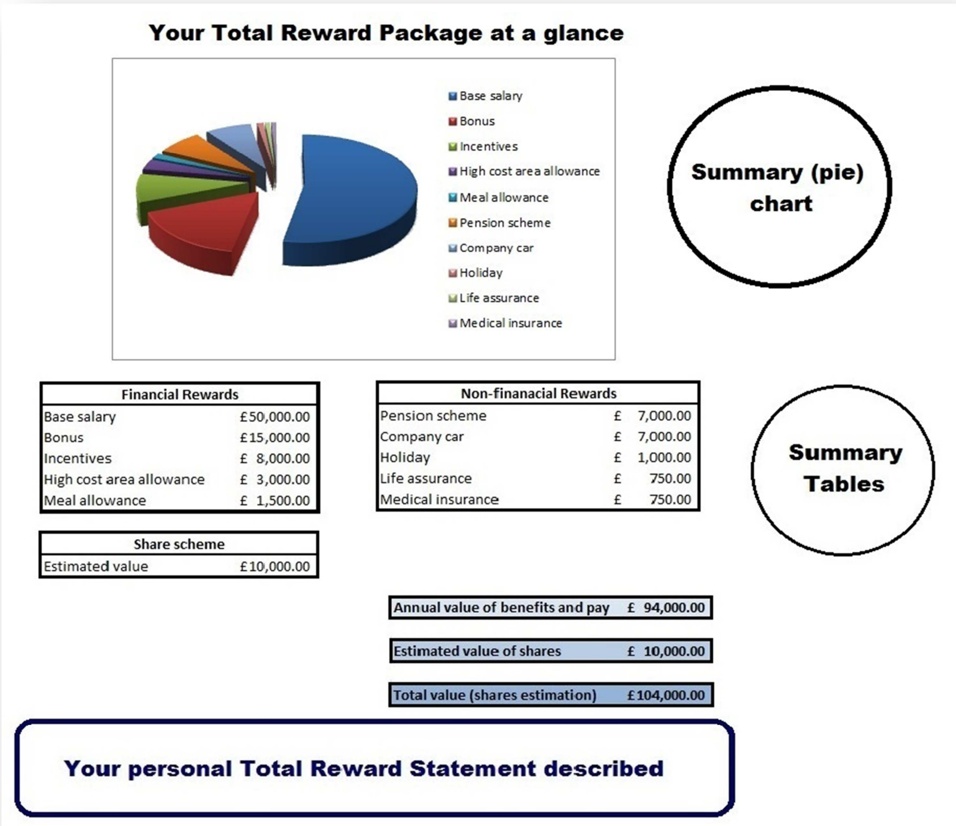
Table 14 – TRS Cover Letter

Total Reward

In the introductory section, individuals' personal data will be placed in order to personalize the document and show that the statement has been tailored for the person in question. Indeed, albeit not always employers can actually devise personalized statements for each employee, the inclusion of the individuals' personal details will be perceived by recipients as a form of attention and care showed by the employer with each employee. This perception will more effectively and successfully be induced if a presentation and description of what total reward statements are will also be included in the form of a covering letter. Whether the presentation should be signed by the business CEO and the HR Director the impact will even be stronger and the document much more likely to be carefully read and appreciated by employees.

The covering letter should also be considered as a way to establish, or rather, maintain an open communication channel between employer and employees, so that this should invariably be concluded with an invitation to contact the organization HR Function for whatever type of query or additional information might be required.

Charts and tables definitely represent for employers the ideal tools to summarize the overall reward package offered to employees and provide these with a clear and comprehensive view of its worthiness. More in particular, pie charts are usually considered the most suitable and effective tool to provide employees with an immediate view of their overall reward package composition and express the significance and relevance each component has vis-à-vis the others.



Financial Rewards	
Base salary	£50,000.00
Bonus	£15,000.00
Incentives	£ 8,000.00
High cost area allowance	£ 3,000.00
Meal allowance	£ 1,500.00

Non-finanacial Rewards	
Pension scheme	£ 7,000.00
Company car	£ 7,000.00
Holiday	£ 1,000.00
Life assurance	£ 750.00
Medical insurance	£ 750.00

Share scheme	
Estimated value	£10,000.00

Annual value of benefits and pay	£ 94,000.00
Estimated value of shares	£ 10,000.00
Total value (shares estimation)	£104,000.00

Table 15 – TRS Template 1

A detailed enumeration and a brief description of the different components of the financial reward package offered to employees can and have at this point to be showed in the statements. The concise description included in each entry will turn to be useful in order to remind employees in which way their basic pay and the amount associated with contingent pay have been determined.

Financial Reward Package Composition

Components of financial reward

Base Salary Brief description referring to individual or collective agreement and period to which pay data refer	£50,000
Bonus Brief description referring to target achievement	£15,000
Incentives Brief descritpion referring to company objectives contribution	£8,000
High cost area allowance	£3,000
Meal allowance	£1,500
Total cash	**£77,500**

Benefits package

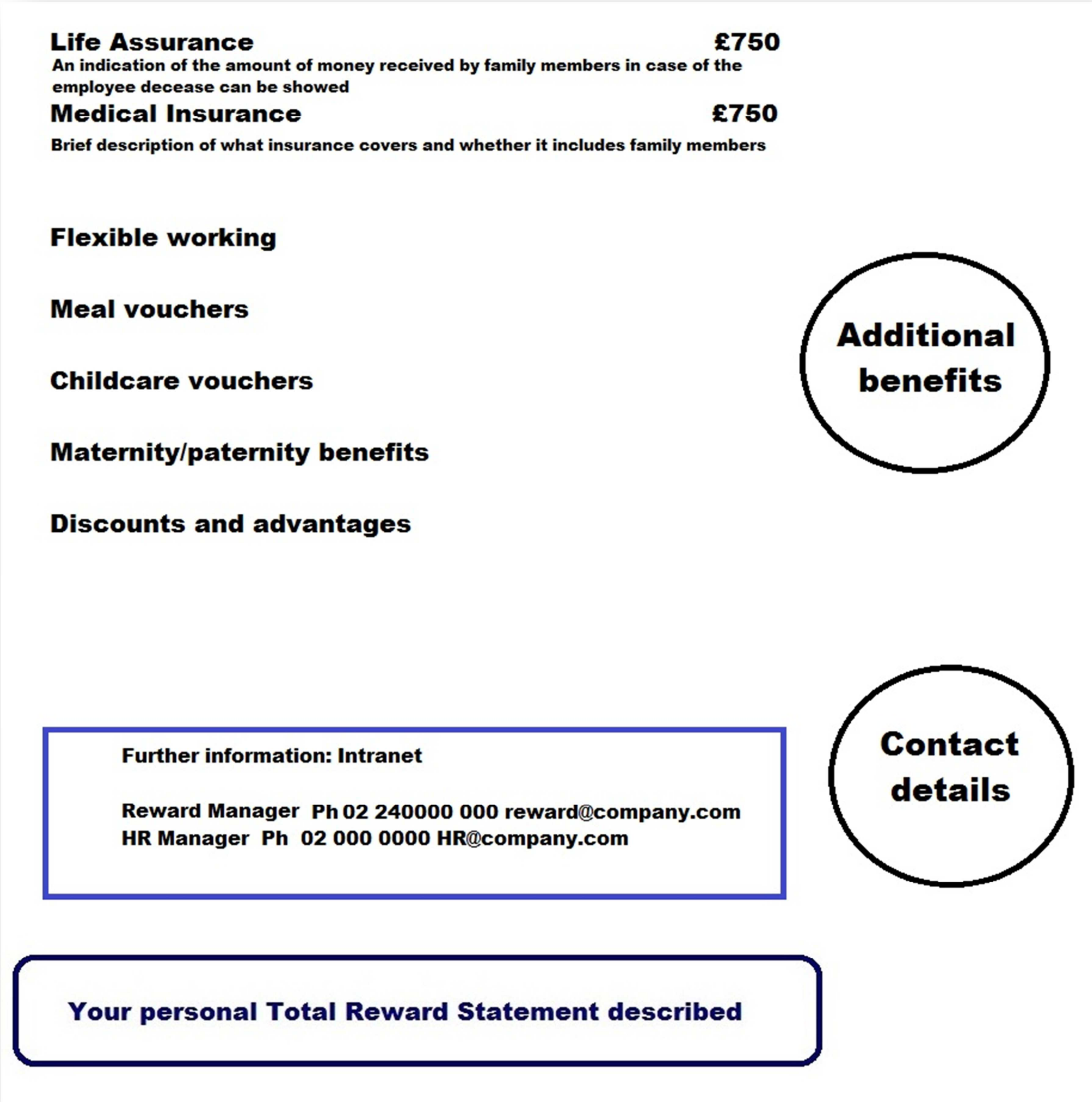
Main benefits

Pension Scheme Refer to the circumstance the employer decided to join the scheme	£7,000
Company car Specify if the company car was offered as an alternative to further cash	£7,000
Holiday Holiday entitlement (in days) whose value is expressed in cash	£1,000

Your personal Total Reward Statement described

Table 16 – TRS Template 2

The list of benefits, including voluntary benefits, with the indication of their worthiness will complete the statements. Also in this case, it would be appropriate to include in each entry a brief outline explaining the advantage of which the employee actually benefits. Whether an advantage should be extended to the individual's family members, this will be mentioned in the benefit outline. This description can definitely reveal to be useful in order to remind employees that some of these benefits, especially when cafeteria benefits programmes have been put in place, have actually been chosen by the employee as an option to other available forms of advantages.


Life Assurance £750
An indication of the amount of money received by family members in case of the employee decease can be showed
Medical Insurance £750
Brief description of what insurance covers and whether it includes family members

Flexible working

Meal vouchers

Childcare vouchers

Maternity/paternity benefits

Discounts and advantages

Additional benefits

Further information: Intranet

Reward Manager Ph 02 240000 000 reward@company.com
HR Manager Ph 02 000 0000 HR@company.com

Contact details

Your personal Total Reward Statement described

Table 17 – TRS Template 3

It would be appropriate and certainly welcomed by employees, showing in the final section of the statements a list of all of the printed and electronic documents produced by the organization about the firm's reward programmes, flexible benefits and total reward statements. Ideally, for each document listed should also be provided a link enabling employees to directly access and eventually download the document. In addition to this option, employers should also provide for each document listed precise details about how to eventually request a hard copy of the document and to whom.

TRS implementation critical factors

Communication approach and strategy

Total reward statements are basically concerned with total reward communication, by extension, they can be considered as a crucial element of total reward programmes implementation. Though TRS represent an important means by which employers can stress and emphasize the value of their total reward proposition, in order to be effective total reward statements need to be supported by a specific and effective communication programme themselves (Longo, 2011d).

To properly put the message across, employers should first and foremost identify the most suitable communication strategy and approach, which have to be consistent with the usual communication style used within the organization. Indeed, total reward statements need to be coherent not only with the communication approach used within the organization, but also with its "employer brand" (Ratcliffe and Evans, 2008).

Enabling employers to attaining an average 75/80 per cent employee utilisation compared to the more common 25/40 per cent average, having recourse to a pre-release communication strategy has revealed, in many cases, to be a very effective method, (Ratcliffe and Evans, 2010). Advertisements, pop-ups, specific messages posted in the corporate intranet, posters, newsletters, leaflets, memos, mails and similar tools can effectively contribute to generate staff's interest and draw individuals' attention towards this initiative.

When it comes to total reward statements communication acquires a remarkable role not only to support their introduction, but also to stress the importance of their content. In order to provide individuals with the necessary information they need to make informed decisions for their future choices and avoid any possible form of mix-up, businesses need to keep communication clear and simple, completely avoiding, in particular, any recourse to jargon (Pearce, 2009).

As suggested by Silverman and Reilly (2003) employees should always be knowledgeable at least about the essential mechanism of the benefits scheme in place; TRS can indeed reveal to be the most suitable means to explain staff how benefits plans are operated. Ultimately, employers can also decide to provide access to external financial advisors or a dedicated helpline in order to offer staff more specific advice. Clearly this would be a superb initiative, but it will obviously have a considerable drawback in terms of cost.

Benefits valuation

There is broad consent on the critical importance that the correct evaluation of benefits showed in TRS has for their successful implementation. All of the data and information provided to each member of staff, hence, invariably need to be accurate and absolutely reliable. Differently, the statements initiative will turn to be a massive waste of time and resources, with the likely aftermath being employee loss of trust on the employer and the HR function.

Although, by and large, the TRS initiative may seem rather straightforward to implement, benefits evaluation represents one of the trickiest decisions businesses need to make.

More specifically, employers have to decide if they intend to show in the statements either the value each perk is likely to provide to the individuals concerned or the cost faced by the firm to provide each of them, or both. Whether, for instance, an employee would need to spend £500 for a season ticket enabling him to travel from home to work, it is likely that the employer could offer the same ticket actually paying it £450 (depending on the number of season tickets bought and possibly on some other variables).

According to Silverman and Reilly (2003), organizations usually decide to state in the document the value of each perk in terms of the advantage they offer to employees (in the example, £500), in that it is clearly associated with a higher value compared to the cost actually faced by the employer (in the example £450), who can benefit of favourable prices on account of buying a large number of each item or service. But the Authors also highlight the circumstance that applying this benefits evaluation method could give rise to dispute with employees and/or their representatives. In some circumstances and depending on the different types of perquisites, the value each employee associates with each of them can in fact be differently perceived. Individuals close to their retirement age, for example, may very likely perceive as higher the value associated with complimentary pension schemes and health insurance, whilst younger people could perceive as less worth the value of these kinds of benefits. Yet, those perquisites which can be enjoyed by employers with their family members would possibly be perceived by working parents as having even more value than that these objectively have (Longo, 2011d).

When considering the impact of the different perceptions employee may have of the data showed in the statements, in term of both reliability and acceptance, employers should be particularly careful; the risk being that of jeopardising the legitimacy of the overall reward packages they offer. That is why businesses very often do prefer showing for each item both the benefit value for the employee and the cost faced by the organization to offer it. This would actually be an ultimate form of transparency which will surely contribute to favour employees to be more objective when valuing their take-up.

Other Key factors

In addition to data accuracy, content personalisation, clear and simple communication and a consistent data valuation method, there are other relevant factors which need to be duly taken into consideration by employers when designing statements.

One of the things organizations need to completely avert, for instance, is to oversell benefits (Ratcliffe and Evans, 2008). Employers should be careful to not include in statements more than it is actually made available and offered. Yet, they have to categorically avoid attributing to benefits, irrespective of the evaluation method used, more than their actual value.

Another pitfall business should avoid falling into is to overfill statements with figures (Ratcliffe and Evans, 2008). Despite numbers and charts can definitely help employers to provide a synthetic view of the statements content, their usage has to be appropriate and proportionate to the intended objectives. A descriptive section explaining and clarifying the meaning of the different charts and figures has invariably to be included.

An additional important decision employers should make, albeit apparently of secondary importance, concern the determination of the number of pages the overall document needs to contain and the different lengths statements have to reach according to the different individuals to whom they are addressed (Ratcliffe and Evans, 2008). Depending on the support chosen, that is, paper or electronic format, TRS total length and number of pages definition, whether not considered from the outset, can give rise to problems which could reveal to be not so simple and easy to overcome during the implementation stage.

Once the standard layout has been arranged, reward professionals could prudently decide to leave some spaces blank in the first instance in order not to change the overall layout and number of pages in case of amendments. Nonetheless, decisions about the best way to eventually fill these spaces need to be made at the outset and before determining the final version of the statements.

Designing and implementation approaches

In order to design and implement total reward statements, employers have to use a clear, structured approach. The method suggested by Lucas (2006) is formed by 6 different stages. During the first stage businesses have to complete the checklist of the benefits offered by the organization to staff. Then, decisions about the statements structure need to be taken. The third stage represents a fairly delicate phase; it is in fact concerned with the definition of the evaluation method to be used to determine the value of each item which will be showed into statements. At this stage, the statements content and layout can be designed and developed. The fifth stage is concerned with one of the most sensitive phases of the overall process, that is, data collection. Finally, everything is ready to introduce and launch the total reward statements initiative.

Before carrying out the statements designing and implementation processes, a previous analysis aiming to clearly highlight the business strategy and objectives and determine how statements can actually support organizations to achieve these has to be considered mandatory. This analysis is also of paramount importance in order to determine where statements "sit in the broader reward context" (BDO, 2010).

Since statements are directly linked to the total reward programme in place within an organization and, as such, also to the flexible and voluntary benefits schemes eventually offered, TRS, after having been launched, need to be reviewed every time changes are applied to these schemes.

Design, development, launch and maintenance are not the only activities associated with issuing TRS. After having launched statements in fact employers should carry out an employee survey aiming to investigate employee perception of this tool (Ratcliffe and Evans, 2008) and whether the intended objectives have actually been attained. Employers will review statements according to the feedback received by their staff, activating a "refine and refresh" stage which may lead to a re-issuing phase (Ratcliffe and Evans, 2008).

This process, aiming to modify and eventually adapt statements according to employees feedback, has actually to be considered part of the maintenance process itself, meaning by that that it has to be fully considered as part of the overall process and as such be carried out as a matter of course.

TRS and the public sector

Issuing total reward statements could appear to be a practice typical of private sector organizations, but this is not actually always the case. In the UK three big local authorities, namely the Buckinghamshire, Cambridgeshire and Hertfordshire councils decided, during summer 2008, to join forces in order to pilot a project aiming to design and implement total reward statements to be issued for 60,000 staff (Berry, 2008).

This should not come as a surprise, in that, although local governments reward packages have always been undervalued and underestimated by staff, public sector employees usually enjoy benefits such as pension, holiday and flexible working, whose value very often overcomes that offered by private sector employers (Berry, 2008). That is actually why in 2008 the UK' Cabinet Office recommended to public bodies to have recourse to TRS; the aim and objectives are clearly exactly the same as those pursued by private sector organizations.

Total reward statements introduction can reveal to be particularly useful and effective especially in periods when the salary increases granted to public sector staff are below the inflation rate; fostering the value of the overall package offered to staff becomes, especially under these circumstances, crucially important (Hibberd, 2008).

What next

By introducing statements, employers can also communicate to their staff the total reward concept at the basis of their organization total reward mechanism. Employees can gain a clear view and understanding of what benefits their employer offers to them and of the cost and value of the perquisites they receive. Ultimately, by means of this tool, employers can also attain the objective of clearly associating or integrating reward and benefits (Lucas, 2006).

Gathering employee feedback, in order to eventually implement adjustments accordingly and verify whether the intended objectives have actually been achieved, is extremely important. But, after having introduced total reward statements, businesses also need to analyse statements data in order to identify possible opportunities in terms of financial savings, make changes in the benefits packages and eventually in the cafeteria benefits schemes offered (or making decision about the introduction of this latter scheme, if not yet existing within the organizations) (Lucas, 2006).

TRS influence on attracting, retaining and engaging staff

Inasmuch as retaining valuable individuals is a difficult feat to achieve for employers in whatever circumstances, in periods broadly characterized by belt tightening and uncertainty attaining this objective may reveal even harder. Taking particular care with effectively and properly communicating to each member of staff the value of the overall reward package he/she receives is, hence, particularly important (KPMG, 2002). Since during economic downturn and slowdown periods pay increases could be unlikely to be offered or, even in the event these should, would not be as generous as these had been during the previous years, properly communicating employees the worthiness of their current reward packages could effectively help organizations to improve staff morale or to soften the negative impact that gloomy economic periods can make on individuals (NorthgateArinso, 2009).

Ensuring that employees truly understand and properly value each component of reward, can reveal to be particularly useful in order to "developing or reinforcing a branding for reward and benefits within an organization" (Ratcliffe and Evans, 2008). Additionally, this awareness can effectively contribute to deter employees from leaving their current employer just for a meagre basic salary increase and make individuals understand that their organization really care about them. By comprehensively expressing the real value of the overall reward package rather than only that of the core salary offered by an employer to its staff, TRS can act as an effective and "valuable retention tool" (NorthgateArinso, 2009). Recruitment is widely recognized as being a quite expensive exercise. Yet, in general, replacement cost is conservatively estimated to reach 150 per cent of the leaving employee annual compensation sum. Statements, offering a real and complete picture of the worthiness of the package employees receive, will certainly make individuals thinking over about the possibility of leaving their current employer.

Moreover, enabling employers to show individuals that they are adequately and competitively rewarded for their capabilities and performance, TRS may reveal to be particularly important and effective not only in order to retain individuals, but also in order to attract new talents (KPMG, 2002). These can in fact be used by organizations to provide candidates for new roles with a thorough and comprehensive knowledge of the worthiness of the total reward package they would receive "above and beyond the core salary." As such, TRS can successfully help organizations to attract valuable individuals (NorthgateArinso, 2009).

Giving potential recruits the possibility to gain a good understating of the worthiness of an employer values proposition, will also definitely enable organizations to manage more effectively and consistently the recruitment process, whilst developing the organization's brand of employer of choice (NorthgateArinso, 2009).

Taking as axiomatic that total reward statements, providing staff with a thorough knowledge and understanding of their reward packages, can actually help businesses to retain current employees and attract new staff, it could be worth investigating whether this tool could actually enable organizations to also achieve better staff engagement and motivation levels.

Considering engagement more strictly associated with the job carried out by each individual rather than with the organization, it cannot be excluded that statements could actually act as drivers to produce better engagement levels. Since TRS also contain details of all of the development opportunities offered to employees by their employers, on reading statements individuals should found out that if they perform at certain levels it is also and mainly because their employers have provided them with these development opportunities, training and a job enabling them to carry out their activities with enthusiasm, stimulation and positive behaviour (Murlis and Watson, 2001).

Statements should also help firms to attain better results from the motivation point of view. Individuals by means of statements have the opportunity to gain, at a glance, a complete view of all of the benefits they receive from their employer. An employee who could not see in a statement anything motivating, neither from the tangible nor from the intangible point of view, will clearly be an individual totally unsatisfied with his job and with his overall working situation. His/her levels of engagement and motivation and hence performance, are likely to be at a critical level. Since firms which have decided to introduce statements are clearly not organizations offering their staff only basic salary, this circumstance should be in practice the most unlikely to occur.

This is the main impact TRS should have on engagement and motivation whether we consider statements in isolation. In actual fact, nonetheless, statements do neither represent an isolated tool nor provide a distinctive, additional value to employees by themselves; notwithstanding, they are important to stress and highlight the value of what employers already do for their staff. The real value employers provide to their employees is incorporated in all of the tangible and intangible, financial and non-financial elements included in their total reward programmes. To put it another way, statements do not help employers to provide additional tangible value to their staff take-up, but rather enable individuals to value what their employers do for them so that they can support total reward systems meaning and effectiveness. Once again, we are looking at the bundle effect, where the combined power of more forces, by means of the synergetic effect these produce, enable businesses to attain a better result compared to that which they would have attained by means of each single initiative or tool used in isolation.

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Section III
Strategic Approach
to
Reward Management

Introduction

Traditionally employees have always been paid with money and only relatively recently organizations have begun to approach reward in a strategic fashion, focusing their attention on developing bespoke reward strategies whose aim is to help businesses to achieve their specific organizational objectives and priorities.

Until 1980s in the private sector, and even until more recently in the public sector, employee pay and working conditions were basically decided through collective bargaining, more often than not at national or at industry level, with trade unions. The multi-employer bargaining system declined sharply during the 1980s and 1990s, insofar as in 2004 only 36 per cent of public sector employers and a meagre 1 per cent of private sector companies had still salary arrangement determined through collective bargaining processes in the UK.

The end of this long-established system has enabled organizations to introduce and develop payment systems more specifically destined to reward individual skills, efforts and performance and to achieve a higher level of flexibility in determining the employee benefits offering.

In the last two decades reward management has attracted the interest of consultants and academic researchers as well, so that a good deal of literature has been made available on which organizations have found the basis and the inspiration to develop and implement reward practices. Nonetheless, as pointed out by Armstrong et al (2005), a worrying "knowing-doing gap" remains. To some extent, strategic reward approaches can be considered as still being in somewhat of a probationary period. The effectiveness, efficiency and fairness of the various types of rewarding systems differently implemented in different businesses are, hence, still under investigation.

The available wording options

First and foremost, it could be interesting to find out why the term reward itself has been used to refer to the whole range of benefits an employee receive from his employer in exchange for his/her work.

As appropriately stressed by Torrington et al. (2008), the term "payment" would have been too limited in scope in that many of the rewards an employee takes from his work do not actually take a monetary form.

The word "compensation", widely used in the American literature, gives mostly the idea of making amends for something that has caused loss or injury to someone else, which would not exactly be the most appropriate idea to associate with work activities.

The term "remuneration" has the same meaning as "payment"; additionally it allegedly is the most misspelled (renumeration) word in the HR lexicon.

"Reward" would not actually be the best term to use either, in that it suggests the idea of a special payment for a special act; nonetheless, amongst the available options, it seems to remain the most appropriate term to which resorting when referring to the financial and non-financial package employees receive from their employer for their contribution to the attainment of organizational objectives.

Considering the issue from the transactional point of view and, to some extent, from the psychological contract point of view, it would not be completely inapt referring to the term "return", but it would definitely be inappropriate and misleading of the efforts companies are actually making in order to offer their staff a whole range of elements combining to make work rewarding and worthwhile, what is today known as "total reward" (Longo, 2010b).

The term "reward" is nowadays no longer used as exclusively associated with the financial/tangible components of reward, but rather in its wider and overarching meaning of a combination of both financial and non-financial rewards, with the latter grouping gaining an increasingly growing importance to the achievement of the organizational objectives. More recently, reward professionals and academics are mainly directing their investigations to strategic reward approaches based on the concept of total reward. However, since financial reward, usually referred to as compensation or pay, is still considered having a distinctive impact and influence over individuals, it continues to remain object of investigation of its own and very often of passionate and intense debate too.

Albeit the concepts of strategic reward and reward strategy are basically referring to the same idea, they are indeed different in that each of them is associated with the different stage by means of which reward practices are developed and introduced within a firm. Whereas strategic reward is concerned with the methods, approaches and definition of the underpinning principles on the basis of which reward strategies have to be developed, according to the identification of the aims and objectives that employers intend to pursue by means of these; reward strategies are basically concerned with the identification and development of the most suitable means and instruments which will be used by employers to practically and consistently execute strategic reward and achieve its intended aims and objectives.

Defining strategic reward

Strategic reward is first of all the result of a fundamental decision employers need to make before introducing reward practices within their organizations or eventually changing those currently existing. It is very much associated with the type of approach, method, founding concept and tenets on the basis of which have to be subsequently developed the reward practices that employers intend to introduce and foster within their firms. The definition of strategic reward, hence, represents a mandatory prerequisite necessary to design, develop and execute consistent reward management policies within a business.

Inasmuch as business strategy is concerned with the mid- to long-term direction a business intends to pursue, reward strategy is concerned with the identification of the reward practices considered as the most suitable for helping and enabling employers to attain their mid to long run pre-identified reward, and by means of these, business objectives. Essentially, a strategic approach to reward is meant to help employers to determine where they want to go and the kinds of initiatives and actions necessary to reach the intended position in terms of reward choices.

As suggested by Armstrong (2010), strategic reward is, therefore, concerned with both “ends and means” in that strategic reward management is basically involved with representing a vision about the future of reward procedures within an organization and with determining the actions which need to be carried out in order to achieve the intended objectives.

Strategic reward can also be described as the most appropriate and effective approach to reward management enabling employers to reward their staff according to their practical contribution to the achievement of organizational aims and objectives, where both individual and organization needs are met (Longo, 2011). As suggested by the CIPD (2012), a strategic approach to reward is ultimately intended to support the attainment of both organizational aims and individuals aspirations.

Although in theory the concept of designing and introducing reward practices supporting the achievement of organizational objectives can be considered unquestionable and even attractive, findings of CIPD investigation (CIPD, 2010) revealed that only 33 per cent of the UK organizations have a written reward strategy, whilst a further 31 per cent is planning to formulate and adopt one. Arguably, in many other countries things are not going any better. All of that, despite many researches and consultancy studies reveal that firms having a defined reward strategy attain better financial results than those organizations not having any strategy in place.

Once the direction and the most suitable path to reach this have been determined, employers and reward professionals still needs to identify and determine the philosophy and guiding principles on which practices and policies, enabling organizations to attain the intended strategy, have to be underpinned.

Making the case for a strategic approach to reward management

Organizations which have decided to adopt an aggressive approach to the relevant labour market usually have recourse to the efficiency wage theory, that is, to an approach based on setting salaries levels at an above-than-average percentile in order to attract and retain talented people and use pay-per-performance schemes to motivate and engage them.

Indeed, in no organization a scheme, system or issue is managed and sorted out in a so simplistic way whatsoever. Just try to imagine what would it happen if a marketing project team should propose to its organization business leaders to introduce in the market a new product similar in price, features and overall value proposition to a product already available in stores. It is absolutely easy to imagine, in this case, what the employer reaction would be. Notwithstanding, in terms of reward this actually occurs, many organizations in fact tend to replicate and introduce the same rewarding system used in other businesses. This, despite according to the best fit approach it is definitely preferable, and even more suitable, introducing practices and schemes fitting the specific circumstances.

Yet, why should people desire to work for, and stay with, an employer? What makes an organization attractive to the extent people wanting to work for it? Additionally, how much money spend firms to pay salaries? Which percentage of the overall revenues or operating income do personnel costs represent? Does the organization resort to the same level of strategic and operational decisions process to deal with labour costs as it does for other types of investments and/or expenditures? Finally, it comes without saying that every time an employer spends or invests money is expected to maximise the return from these expenditures. The need for an organization having a strategic approach to reward relates to the contribution, in terms of added value, it is able to make basically giving employers appropriate answers to all of these questions (Wilson, 2008).

Strategic reward essentially aims to help employers finding sound and fitting solutions to the current and, most of all, future issues, possibly avoiding or anticipating them, and enable businesses to effectively and consistently sorting all of them out. All of this; trying to balancing employer and individual wants and expectations.

Needless to say, the one-size-fits-all approach in this case, as in many other cases, is most likely to produce detrimental effects rather than good ones. A strategic approach to reward management, hence, entails and enables employers to focus on internal needs whilst considering and taking into due and careful consideration all of the forces and indications coming from the external environment.

Reward philosophy

Each reward strategy has to be developed on the basis of a reward philosophy which, according to the behaviour and standards an organization values the most, defines how to reward individuals within the business. Reward philosophy main objective is hence that to foster those standards and behaviour amongst staff and encourage people to respectively meet and exhibit them (Longo, 2011).

Whether a reward philosophy should aim, for instance, to enhance productivity and promote high performance and significant contribution to a firm efficiency, it would very likely be based on the principle that individuals will be rewarded according to their actual contribution to the business success and to the return on investment they are able to generate.

Reward philosophies need to essentially develop from organizational values and beliefs taking into account, in addition to organizational needs, also employee wants and expectations, of which these have to be basically considered part (Armstrong, 2010). In particular, staff expectations need to be taken into due consideration in order to avoid breaching individuals psychological contract and trigger off the negative behaviour usually associated with this occurrence.

General and fundamental tenets as fairness, impartiality, equal opportunities and equity also need to be duly considered amongst the founding pillars of a sound reward philosophy. The effectiveness and consistency of a reward philosophy, however, need to be proved in practical terms rather than in theoretical ones.

Armstrong (2006) suggests that a reward philosophy should be strategic in that it should strive to address "longer-term issues relating to how people should be valued for what they do and what they achieve."

The link between business strategy, reward strategy and reward philosophy is clearly very tight. Being sensibly influenced and affected by the external environment a business strategy is very likely to be subject to a frequent, and in some cases even continual, process of change (especially in those cases in which strategy changes and evolves at such a pace to be considered emergent). These changes are very likely to produce in turn effects on reward strategy and philosophy, which can consequently require amendments and adjustments from time to time. Employers should be aware of and seriously consider this aspect too amongst all of the other factors influencing a reward strategy and philosophy formulation and review (Longo, 2011).

External legal developments, for instance, have actually remarkably accounted for equity and fairness to be taken into account amongst the tenets to consider when developing reward philosophies. In many countries, governments have in fact introduced equal pay legislations to which employers, albeit this has not to be intended as a legal requirement only, cannot, properly speaking, refrain from conforming to.

In order to help and facilitate the practical translation of a reward strategy and philosophy into policies and practices, it is particularly important for organizations to also identify a set of guiding principles defining the approach and guidelines to reward management (Armstrong, 2006).

Guiding principles

Guiding principles can be considered as something in between a reward philosophy and the policies and practices emanating from it. Broadly speaking they are intended to facilitate the shift from theory to practice, but being based on an organization's values and beliefs they also aim to foster and apply these to the way individuals are rewarded within an organization (Longo, 2011).

Being expression of organizations reward philosophy, guiding principles enable organizations to consistently translate into actions, that is, into policies and practices, what has more rhetorically been stated into a reward strategy and philosophy.

This might appear to be the most tedious and uninteresting part of reward management; however, whether organizations should miss not only to carry this activity out, but also to properly and carefully manage it, reward management practices implementation will surely result in a complete failure. Particular care and attention need, hence, to be paid to this aspect from the outset (Longo, 2011).

Moreover, although this part of the process is essentially concerned with theory, its practical implications are absolutely remarkable and crucial for the successful implementation of a reward strategy.

As suggested by Armstrong (2010), the guidelines and recommendations contained in the guiding principles for the identification of the practical initiatives to implement are also of paramount importance to communicate employees the mechanism of the reward system and the solution adopted by the business in order to balance employee and employer needs and expectations.

Guiding principles relate and are intended to establish and identify the position of the organization vis-à-vis the most important reward issues. These are intended to help employers to identify and fix some of the most important and frequent matters usually associated with reward management and provide sound answers to the most frequent questions arising during reward strategy and practices preparation. For instance: reward employees on the basis of their contribution to organizational performance or strategy achievement? Reward individuals according to their input and level of participation or reward top performers only? Create a value proposition capable of attract and retain quality staff at all levels or mostly intended for high-flyers only? Offering competitive pay regardless of fairness or equitable salaries? Amongst the most frequent and important matters guiding principles need to settle, has not to be overlooked the definition of the role played by line managers in reward practices execution (Armstrong, 2010).

Strategic extent of reward management

Even though the need for a strategic approach to reward management should be taken as axiomatic, relatively recently, some Authors have cast doubt on the strategic value of reward. Indeed, in some cases, more than the effectiveness of strategic reward it seems that is the need for prudence and the necessity to empirically test strategic reward theory the real reason for reservations. Whether this should actually be the case, disquiet could be acknowledged and understood.

The Authors who firstly raised a certain degree of uncertainty over the strategic role of reward management were Armstrong and Brown (2006) who, outlining the traits of new strategic reward management, warned against the excess of attention paid by employers and reward practitioners to reward design and planning rather than to its implementation. The Authors basically stressed the negative attitude of reward specialists, increasingly involved on emphasising the rhetoric of the strategic reward idea, rather than its practical impact on business performance and results. Yet, some factors such as the importance of line managers and communications, definitely critical for the successful and consistent implementation of reward management practices, seem to be, all too often, exceedingly neglected too. Armstrong and Brown (2006) also maintained that business are usually over reliant on the effects of strategic reward and so concentrated on using the best fit approach insofar as they end up to overlook the growing pressures coming from the external environment. Rhetoric is usually so predominant that not only the need for line managers having the necessary capabilities and skills, but also reward managers and specialists assessment of expertise and technical knowledge, are frequently underestimated and virtually ignored by employers.

This warning was subsequently echoed by Trevor (2008 and 2009) on account of the findings of his research based on the analysis and comparison of a number of case studies concerning multinationals organizations operating in the consumer goods industry.

Findings of this extensive research revealed that not invariably, in terms of strategic pay, what it is attained in practice coincides with what has been planned and designed in theory. More in particular, the study revealed a sensitive gap between strategy, practices and implementation. Ineffective and inappropriate strategy and policy execution can clearly lead to generate a different employee perception vis-à-vis the employer expectations and aims, ultimately causing reward practices implementation ending in failure and the consequent withdrawal of the programmes associated with these.

The study also revealed that not always using strategic compensation, such as incentives, can enable firms to motivate their staff from management to the shop floor. In some cases, organizations which considered pay as the main lever to induce motivation even experienced some remarkable drawbacks. More in particular, employers had to deal with the conflicts generated by the compensation system which in turn caused disengagement, poor performance and unwanted behaviour. Yet, these conflicts also usually need a good deal of time and resources to be managed and settled, contributing to even keep further afield employers from the attainment of their strategic objectives.

Even though Trevor research provides strong support to the contingent, best fit model he maintains that, at the same time, it also provides evidence of the existence of a certain degree of isomorphism. The same managers were in fact moving from one organization to the other. Yet, all of the multinational firms investigated were using to have recourse to the same external consultancy (also in the case of different consultancies caution is imperative in that these essentially adopt the same standardized approach and provide the same professional solutions and advice). This contributed and accounted for all of the businesses concerned to essentially introduce nearly the same compensation practices, which clearly represents a risk of its own. This risk was further reinforced by the dominating, wrong habit to introduce within a business determined pay policies only because these have proved to work well in other firms.

According to Trevor (2008 and 2009), pay practices rather than being designed and inspired by the economic circumstances are rather primarily driven by the social and political pressures. This is actually the main reason for a relevant divergence between what has been designed in theory and what it is implemented and hence achieved in practice often occurs.

The investigation also provided clear evidence of the importance of practices execution. Albeit the different policies were developed by the same consultancy and showed several similarities in fact in some businesses results were better than those achieved in others.

Rather than proposing to abandon a strategic approach to compensation, Trevor posits a revision of the approach to strategic pay and maintains that findings of his research do not question the importance of compensation. Prudence, however, is mandatory and reward specialists should be cautious about promising quick and unquestionable positive results. Whereas the benefits of strategic compensation are difficult to assess and measure, the drawbacks of managing it inappropriately and inconsistently would emerge manifestly (Trevor, 2008).

Trevor (2008) posits that reward specialists, rather than promising value maximization by means of strategic compensation, should act in order to minimize the risks associated with compensation operating, hence, as somewhat of risk managers in the compensation field. This conclusion is certainly consistent with Trevor's recommendation that prudence needs to be used when introducing and implementing a reward strategy within an organization, especially in terms of the results the new strategic approach can enable employers to achieve and of the necessary period of time required to achieve them.

These recommendations are therefore absolutely justified, but it could actually appear to be rather limiting considering reward management, and the role played by reward specialists, as only restricted to risk management. Albeit it is absolutely true that employers and reward specialists should definitely pay much more attention to this aspect, risk management can be considered as part of strategic reward, but cannot totally be identified with it. To put it another way, reward risk can be considered as a mandatory prerequisite of strategic reward management rather than as an activity reward specialists should perform in lieu of defining and identifying a strategic approach to reward.

Recent Reward Risk Survey carried out by the CIPD (2012) has identified, amongst the nine reasons for employers' reward risk disquiet, misalignment between reward and business strategy as the fourth most problematic issue reward specialists will need to cope with over the next two years. Attraction and retention of quality staff, pension cost management, budget limitations and the circumstance that incentives are not motivating staff are amongst the main concerns of reward managers and specialists. Strategic reward is indeed meant to address these and other organizational issues.

The difficulties associated with reward strategy development and implementation have actually been referred also by Bevan (2000), who suggested that although reward strategies are intended to contribute to business improvement and cultural change, very often these end up in massive failures. However, it is not the strategic effect of reward management which is considered at the basis of this failure, but rather the numerous pitfalls employers fall into when developing and implementing it.

Reward or pay strategy

There are a few aspects emerging from the topics discussed above which definitely deserve further investigation. One of these relates to terminology. Whilst in his studies Trevor (2008 and 2009) refers to pay and compensation, Armstrong and Brown (2006) refer to reward. Indeed, Trevor (2008 and 2009) in his research clearly refers to pay and compensation basically meaning by these pay. Yet, he considers the alignment of employee behaviour with organizational strategy necessary to achieve competitive edge. Pay should, therefore, represent the means by which employers should attract, retain, engage and motivate staff and induce individual commitment and loyalty. Indeed, that money, of its own, could not enable employers to achieve all of these remarkably ambitious objectives, can nowadays be considered unquestionable. Findings of several investigations have revealed that money can at best eventually help employers to just attract quality individuals, but it can hardly enable firms to retain, and let alone motivate and engage, them especially in the mid- to long-term.

Reward specialists promising miracles to their businesses shareholders thanks to the introduction of new pay strategy approaches would seriously put at risk their credibility and reliability as reward professionals. Pay represents only one of the several components forming the overall reward system, which should be based on total reward, whose results and objectives can be attained thanks to the combined effects of different, concurring and simultaneous forces, that is, thanks to the synergetic effect produced by the bundling approach.

In the end, the findings of Trevor research (2008 and 2009) are not that surprising. It actually appears to be slightly different the point made to this subject by Armstrong (2009), who raised some doubts about the extent reward could be considered strategic. The reflections following the expression of concern for the strategic significance of reward (Armstrong and Brown, 2006) are actually comprehensible and compelling; these are essentially intended to highlight the importance of execution and of achieving practical results rather than just focusing on rhetoric and theory. Furthermore, the Authors appropriately warn about the difficulty of the process and emphasize the circumstance that real change and good results cannot be attained quickly.

As mentioned above, Armstrong and Brown (2006), differently from Trevor who basically refers to strategic pay, refer to reward and seem to warn about the strategic value and effectiveness of reward management. This is actually surprising in that the Authors are firm supporters of the total reward approach which, being inspired by the bundling idea should be considered strategic beyond reasonable doubt. Total reward approaches enabling employers to develop an effective value proposition, formed both by tangible and intangible components, should effectually enable employers to pursue their intended strategies.

All of this has not to be clearly confused with simplification or with the promise of the desired outcomes achievement, especially in the short run. The development and implementation phases are important as well as tricky to deliver and a constant review is necessary in order to assess whether the intended results have been achieved in practice and determine if some changes need to eventually be implemented.

Rhetoric and practice

The crucial point is essentially represented by effectiveness. Even though rhetoric, design and development are undoubtedly of paramount importance, these cannot really be considered as detached from what in the end matters the most, that is, the final practical outcome and results. Theory of strategic reward management is absolutely significant in that it is very much associated with defining and identifying the route, the direction and the desired objectives an organization intends to pursue by means of reward management and the principles, guidelines and philosophy underpinning it. Once the direction and the objectives have clearly been identified and strategy implemented, assessing the effectiveness of the strategy which has been executed, in that considered the most appropriate, is key. Whenever reward specialists should find out that the achieved results are not as effective as expected, appropriate action will need to be taken, promptly and accordingly.

The effectiveness of reward strategy rhetoric has to be assessed as a marketing strategy or, for instance, as a radio or TV commercial. It can also be nice and interesting to watch and/or listen to, but if it does not help the organization to sell more items of the marketed goods it clearly is ineffective and needs to be withdrawn and changed.

The arguments provided by Armstrong and Brown (2006) in support of the care and attention which need to be secured to strategic reward approaches undoubtedly deserve to be supported, but have little to do with the questionability of the strategic importance and relevance of reward management. Developing fascinating theoretical concepts which do not bring results in practice might possibly be an interesting exercise, but it will hardly be financed by organizations shareholders and let alone would ever be supported by a business CEO, simply because it would not lend any practical support to the achievement of an organization objectives. Being cautious about the results which can be achieved, especially in the short run, by means of a reward strategy implementation, is also a matter of good and common sense. Yet, taking extra care of external influences is part of the process, as well as is part of the process constantly reviewing and assessing the reward system introduced in order to ascertain that this is in line with the exogenous environment and its developments too. But all of these activities do neither jeopardise nor weakens the strategic importance of reward; they rather show how difficult to manage the process is.

The importance of execution

Strategic reward is not really immune from all of the vulnerabilities typical of strategy in general. The importance of execution is not just an essential feature and requirement of a successful reward strategy; it is indeed a crucial aspect of, for instance, business strategy as well. So important is considered business strategy execution that it is even gaining growing importance the idea that the real problem with strategy is not its definition, but rather its execution. Linda Gratton (2000), for instance, suggests that "There is no great strategy, only great execution."

Another example of the importance of strategy execution can be identified in marketing strategy. Zyman (1999) maintains that if marketing specialists want people to buy their organizations' products they have "to plan strategies carefully and implement them aggressively." Once again the importance of implementation clearly emerges as a crucial factor contributing to the success of the overall strategic approach.

To be successful, the implementation of a reward strategy needs the full support of every single individual within the business. But in order to be embraced and supported by everybody strategy needs first and foremost to be known and understood by all of the employees. For its successful execution, the genuine involvement of top and middle-management is crucial. Indeed, it is also important that managers will have the required skills and capabilities and receive the training necessary to properly and effectively carry out this difficult task. Again, all of these factors are absolutely important and have to be considered mandatory prerequisites for a successful strategy implementation. Managing reward strategy as well as business strategy is everything but straightforward: a good deal of care needs to be taken with many details, but this does not entail that reward and business management cannot be strategic.

The success of reward strategies rests with employers and reward specialists and their ability to properly, effectively and consistently execute what they have developed in theory. This may, however, reveal not to be enough; reward professionals need in fact to regularly review reward strategy in order to assess whether the intended objectives and expected results have been attained and be ready to introduce the required adjustments whether and when required.

Execution as source of competitive advantage

More importantly, recognising to execution a distinctive merit for the overall strategy success can be considered as a significant element to support the importance of human capital as an element effectively contributing competitive edge to a firm. Whereas, although inadvisable and injudicious, theories and practices can actually be imitated, execution is much more difficult to imitate and sorely depends on individuals. Reward specialists, the overall organization's management and ultimately each of the employees forming the organization can prove how important their personal contribution is to the successful attainment of the final objectives, on which the strategic approach is based, by means of the successful execution of strategy or to put it another way, by the contribution each of them will be able to provide to the attainment of the pre-identified strategic outcomes.

Strategic compensation

On the other hand it must be neither disregarded nor forgotten the hygiene significance of pay. Regardless of the effects that financial reward might have or otherwise on individual retention, motivation, engagement and commitment in fact, according to the circumstances and to the external influences impacting the individuals' psychological contract, pay is an element to which employees invariably attach a certain importance and which employers can wisely try to use in a relatively strategic way too.

Albeit total pay represents one of the groupings forming a total reward system, it is in turn formed by a series of components which need to be wisely and appropriately used by employers. This does not mean that businesses can engage and motivate staff exclusively by means of financial rewards, but that they can and need to properly and effectively use the financial components of reward in order to influence individual behaviour, curb disquiet and better provide support to their overall strategic approach to reward.

The benefits of aligning compensation with strategy were already predicated in the early 1970s (Salter, 1973), whilst the effectiveness of this approach was also supported by some empirical studies (Kerr, 1985 and Galbraith and Merrill, 1991). These investigations have generally supported the existence of a beneficial link between compensation and strategy rather than providing an in-depth explanation of a specific fit between the two elements (Rajagopalan, 1997 in Boyd and Salamin, 2001). Yet, findings of these investigations have actually provided different and not always consistent results (Balkin and Gomez-Mejia, 1990; Rajogopalan and Finkelstein, 1992 in Boyd and Salamin, 2001).

Research has also showed that "strategic orientation" can sensibly vary across the different divisions of the same business having, hence, an impact both at organizational and divisional levels (Boyd and Salamin, 2001). Furthermore, strategies implemented at organizational and business-unit-level can be considered important predictors of pay packages design, with business implementing growth strategy, for instance, mainly relying on incentive pay (Balkin and Gomez-Mejia, 1990).

Early research has also showed that pay systems of organizations with "discretionary strategic orientations" are mainly based on performance and practical results and offer to their staff more generous financial reward packages compared to companies characterized by more conservative approaches to reward strategy (Rajogopalan and Finkelstein, 1992).

Boyd and Salamin (2001), analysing the findings of an investigation they had carried out within two Swiss financial institutions, found out that, with the exception of top management, there was not a causal-effect relationship between strategic compensation and basic salary. Their study also revealed that Prospectors (organizations characterized by a strong orientation to market and aiming to develop new products) offers the highest level of variable compensation, mainly bonuses, regardless of the individuals' hierarchical position. Whereas, with the exception of top management, insignificant differences were found between Defenders (businesses internally oriented, aiming to contain cost and offering a stable range of products) and Analyzers (which are somewhat in between Prospectors and Defenders).

Findings of the investigation also revealed that a strategic approach to compensation impacts the entire staff, management and shop floor as well, and different aspects of the financial reward system put in place. Yet, a certain relationship between hierarchy and discretion was identified. It emerged that managerial discretion is one of the main drivers of strategic pay systems and its application is growing to a higher number of employees. The study also revealed that businesses consider discretion and strategic orientation together when designing compensation systems (Boyd and Salamin, 2001).

Boyd and Salamin's (2001) research also revealed that, differently from bonuses, factors influencing base salary are quite limited. Even though it is recognised to base salary a slight strategic value, more than being influenced by strategy it is mainly set according to the individuals' features (age, position, gender). Base salary is, hence, likely to be more static and more difficult to manage at strategic level. On the other hand, bonuses represent the most strategic component of pay and, being acknowledged regardless of personal characteristics, can be adapted and flexed rather easily. Since coherence and flexibility represent the most important and, at the same time, the trickiest objectives to attain by means of pay systems, Boyd and Salamin (2001) suggested using base pay to achieve consistency and bonuses to foster flexibility.

The findings of the different studies analysed by Boyd and Salamin (2001) (Rajogopalan and Finkelstein 1992 vs. Balkin and Gomez-Mejia, 1990; Napier and Smith, 1987 vs. Pitts, 1976) provided conflicting results, so that they concluded, consistently with Trevor (2008 and 2009) suggestion, that although the assumption that businesses align pay system with corporate strategic orientation has been widely supported, outcomes have actually been scarcely assessed. They also admitted that aligning compensation systems with corporate strategy is more intricate and elaborate than believed and that the type of hierarchy in place within the different firms plays a relevant role in the design of pay systems, irrespective of the circumstance these are aligned with the business strategy or otherwise.

Findings of a recent survey carry out by the CIPD and Benefex (2012), instead, tend to recognise a certain level of effectiveness to the strategic alignment of reward. More in particular, the investigation revealed that "careful reward management", enabling employers to retain staff and curb individual concern over pay, contribute to improve relationships between businesses and staff. This result, as it will be further discussed later, is actually in stark contrast with the findings of Trevor investigation according to which strategic compensation is, on the contrary, cause of conflicts between employers and employees.

The study also revealed that private sector organizations adopting different business-level strategies also introduce sensibly different reward strategies. In line with the findings of Boyd and Salamin's (2001) investigation, the CIPD survey shows that businesses having recourse to Prospectors strategies make decisions about compensation system on the basis of the information gathered in the market and offer financial reward packages mainly based on performance-related approaches. Additionally, Prospectors are much more likely to link managers' base salaries to managers' abilities and skills rather than to individuals' length of service.

Defenders, on the other hand of it, are likely to resort to more prudent approaches to financial reward, offering salary on the basis of shareholders indications and the firm's ability to honour the promised payments. Contrary to Prospectors, Defenders are also less likely to offer their managers financial reward packages based on performance-related pay approaches, whereas length of service is the most widely used yardstick for pay progression decisions.

Overall, Prospectors employers seem to achieve better level of employee relations and remarkably better level of productivity, whose standard has noticeably increased during the last three years. Defenders, by contrast, have recorded lower level of productivity vis-à-vis their competitors and have also seen, during the last year, increasing pay-related disquiet amongst employees.

In general, findings of the investigation reveal that businesses are actually pursuing, also in practice, the alignment of their reward system with the overall business strategy. Additionally, consistently with Trevor's (2008) investigation findings, the best fit approach emerges as the favoured method used by employers. All of that seems to produce considerable positive results in terms of HR outcomes, in particular better level of productivity for managers and non-managers positions within Prospectors employers, despite individuals covering non-managers positions receiving lower median total earnings.

Businesses having experienced problems with their staff because of the financial reward system in place are likely to use individuals' potential and value or retention as a reference for pay progression and are less likely to introduce performance-related pay approaches.

One of the most important indications emerged from the CIPD (2012) investigation is that, despite the long and intense debate about the effectiveness of the performance-related pay approaches, this method still holds a widespread favour within the UK organizations. It must be highlighted the circumstance that its effectiveness is proven at strategic level, which basically supports the idea that performance-related pay have to be implemented as a strategic choice wherever and whenever there are the right conditions and requisites for introducing it. To put it another way, performance-related pay, as well as any other decision about a reward system, has to be implemented as a matter of strategic choice and not just because it has proven to work well within a competitor or in other organizations.

Defining reward strategy

All the activities carried out within an organization are basically aimed to support the attainment of the business strategy developed by the company business leaders. All the functions within an organization consequently design, plan and develop their activities, policies, procedures, practices and actions on the basis of those objectives. There can clearly be differences in the way each function supports the organization, but the efforts of everybody are directed towards the same end. HR and reward strategies make no exception.

Once an employer has decided to have recourse to a strategic approach to reward and a reward philosophy and the related guiding principles have been identified, it is finally time to develop the reward strategy, which is still part of the mandatory and crucially important rhetorical stage of the process.

Reward philosophy is essentially concerned with the description of how an organization intends to manage reward and what series of actions and initiatives it plans to carry out in order to achieve in practice what has been developed and designed in theory. Clearly, regularly assessing real outcomes against theory is crucially important. In order to determine a consistent and effective plan of action, employers have to assess the current reward state of play and compare it with the desired state. A gap analysis would, hence, help employers and reward professionals to identify and plan the initiatives necessary to successfully implement the intended changes (Armstrong, 2010).

Reward strategy is essentially concerned with identifying the desired scope and direction of reward management, whilst caring to meet both business and employee needs. When planning to adopt and introduce a reward strategy within their organizations, employers can essentially choose between two different approaches in term of its coverage and extent. They can decide to having recourse to an overarching approach, meaning by this that reward strategy will be extended to the overall reward system: from grade and pay structure to performance related pay, from job evaluation to market pricing, from flexible benefits to intangible/non-financial form of reward, pension, health and medical benefits included, or to a partial approach limiting reward changes to one or more, and anyway a limited number, of the reward system components (Armstrong, 2010).

The latter approach is usually used when organizations prefer to be cautious about the introduction of new practices and prefer an incremental approach to change rather than an aggressive or radical one. In some circumstances in fact even though employers are planning to introduce sensible changes to the overall reward system, in order to gain employee support and acceptance, they might prefer to start progressively introducing quick-win, win-win changes.

Why should organizations develop and implement a reward strategy

Reward strategy can be basically meant as a means to an end, as the avenue where the business and the workforce needs streets converge and, most importantly, as a framework enabling employers to reward their employees for what they practically do to help organizations to achieve their objectives and overall business strategy.

Reward strategy should be used by employers to induce staff to behave and perform in a way which can contribute to the achievement of the organization competitive advantage or, as suggested by Brown (2001), as the way of thinking how to help businesses to generate value from the reward issues arising within the organization.

The most compelling reason for developing and implementing an effective reward strategy is linked to the circumstance that for many employers the personnel cost definitely represents the largest balance sheet's expense entry. More often than not, labour cost exceeds 60/70 per cent of the annual total costs faced by businesses and, in any case, it represents the largest expense faced by employers. This is what mainly happens in labour-intensive organizations and, in particular, in service provider companies, whose activities are entirely carried out through the work delivered by people, rather than by machineries.

This single reason would be more than enough of its own to draw the attention of business leaders to the way they manage their costs and investments and to the return they are expected to get in the mid- and long-term from these. But there are, indeed, additional good reasons for organizations having to develop a reward strategy.

Taking as axiomatic that every employer always has crystal clear ideas of where it wants to go, reward strategy could reveal to be extremely helpful to help employers to:

- ✓ Plan how to get there,
- ✓ Be sure of being in the right path throughout,
- ✓ Recognise and determine when the intended objectives have been achieved.

Since firms resort to reward to attract and retain, but also engage and motivate, staff, they implicitly recognise the positive relationship existing between reward and performance. Having a clear, consistent and aligned reward strategy can definitely enact employers to strengthen and positively influence that relationship.

Last but not least, as argued by Cox and Purcell (1998), the benefit offered by reward strategy lies in the complex linkages it has with the other HRM practices. In fact, the most important and authoritative HRM models developed in the last decades duly keep into consideration the relationships and, more in particular, the multiplicative and synergic effect played by each practice when linked or being part of a wider bundle of policies and practices.

What need to be considered when developing a reward strategy

Reward strategy should be devised by employers keeping in mind, and duly considering, that its aim is basically to induce staff behaving and performing in a way which can actually contribute to the organization achievement of competitive advantage. Differently, employers' struggle to come up with new and more effective ways to reward people would reveal to be only a massive waste of financial resources and of human time and effort.

In general, a strategic approach to reward is basically intended to attract, retain, motivate and engage staff. Encouraging individuals to go the extra mile and trying to foster loyalty and citizenship amongst staff can be all considered as ancillary, albeit not secondary, objectives which employers can pursue by embracing a strategic approach to reward management.

If whilst designing and developing reward strategies employers and reward professionals should just consider the business needs, however, it is very unlikely that these strategies, once developed and introduced, will produce in practice the intended objectives. In order to effectively function and produce the wished positive outcome a reward strategy also needs to be developed taking into due consideration and trying to satisfy employee needs too (Brown, 2001). Before designing a reward strategy, employers should hence investigate and acquire a thorough knowledge and understanding of their employees' wants and preferences. This knowledge can by extension be considered as an additional, fundamental prerequisite necessary to design and develop effective and sound reward strategies.

Before commencing designing a reward strategy having a clear and thorough knowledge, comprehension and understanding of the aims which the overall business strategy intends to pursue is absolutely crucial too. Since reward strategies are introduced to help organizations to achieve their overall business strategy, thinking to plan and develop a reward strategy regardless of an organization overall business strategy goals would certainly reveal to be a massive blunder and the cause of an inevitable failure (Longo, 2011).

Strategic Approach to Reward Management

To develop an effective and consistent reward strategy, however, having an appropriate knowledge, command and consideration of the overall business strategy objectives is not enough; having clear ideas of the aim an organization intends to pursue by means of the implementation of the reward strategy itself is in fact of paramount importance too.

The preliminary identification of specific and clear objectives before the development of a reward strategy could appear to many somewhat as the glaringly obvious; notwithstanding, CIPD research (2005) has showed that many organizations develop and implement reward strategies without having previously neither agreed clear objectives nor identified the assessment tools necessary to measure the effectiveness of the implemented strategy and the results produced by this. Findings of the same research (CIPD, 2005) have revealed that all too often confusion also prevails in terms of what, how and when the newly developed and implemented strategy is intended to bring changes.

To this extent, a gap analysis investigating weaknesses and strengths of the current reward practices will definitely help. It can in fact enable organizations to assess how things are going, compared to how things were supposed or were intended and believed to be going (CIPD, 2005). At the end of this investigation, businesses will be able to determine if a gap actually exists, analyse the causes of this gap and identify and execute the required actions needed to bridge the gap eventually encountered.

Since the one-size-fits-all approach will not be of any help, employers should also ensure that the reward strategy and practices they are planning to develop and introduce properly fit their organizations design and the management processes and systems their organizations operate.

In some cases, different approaches to reward could even be required within the same organization, namely when sensibly different employees' profiles are available within the same business and/or when a firm is operating by means of several branches situated in different locations. Employers need to be aware that applying the same reward practices in these cases is very unlikely to produce positive results. Practices in actual fact will shortly reveal to be inflexible, possibly showing to be effective in some areas of the business, but lacking of consistency and of any sense in other areas. By contrast, a uniform set of practices could successfully be applied and will reveal to be effective and likely to enable employers to attain the intended results in businesses "with common activities and a single location" (CIPD, 2005).

Reward strategy is then clearly influenced both by the business strategy and the internal environment. Amongst the endogenous factors likely to exert a significant influence over reward strategy, may reveal to be particularly important the degree of appreciation and significance attached to reward issues by the organization's top management (Armstrong, 2006).

There are indeed many other factors which may affect reward strategies and which need consequently to be duly considered by organizations when designing and developing their reward strategies. Particular attention needs to be paid to the external environment and HR Strategy.

Amongst the external factors influencing reward strategy it is definitely worth stressing the importance of the labour market trends and features, with particular reference to the market rates, that is, the average salaries paid by the other organizations for similar job positions. Since both the external market rates and the way employers manage reward are object of constant investigation and evolution, businesses should implement initiatives enabling reward specialists to regularly receive updates on the latest relevant theories, trends and studies which may offer them suggestions on and hints about how to come up with brand new ideas.

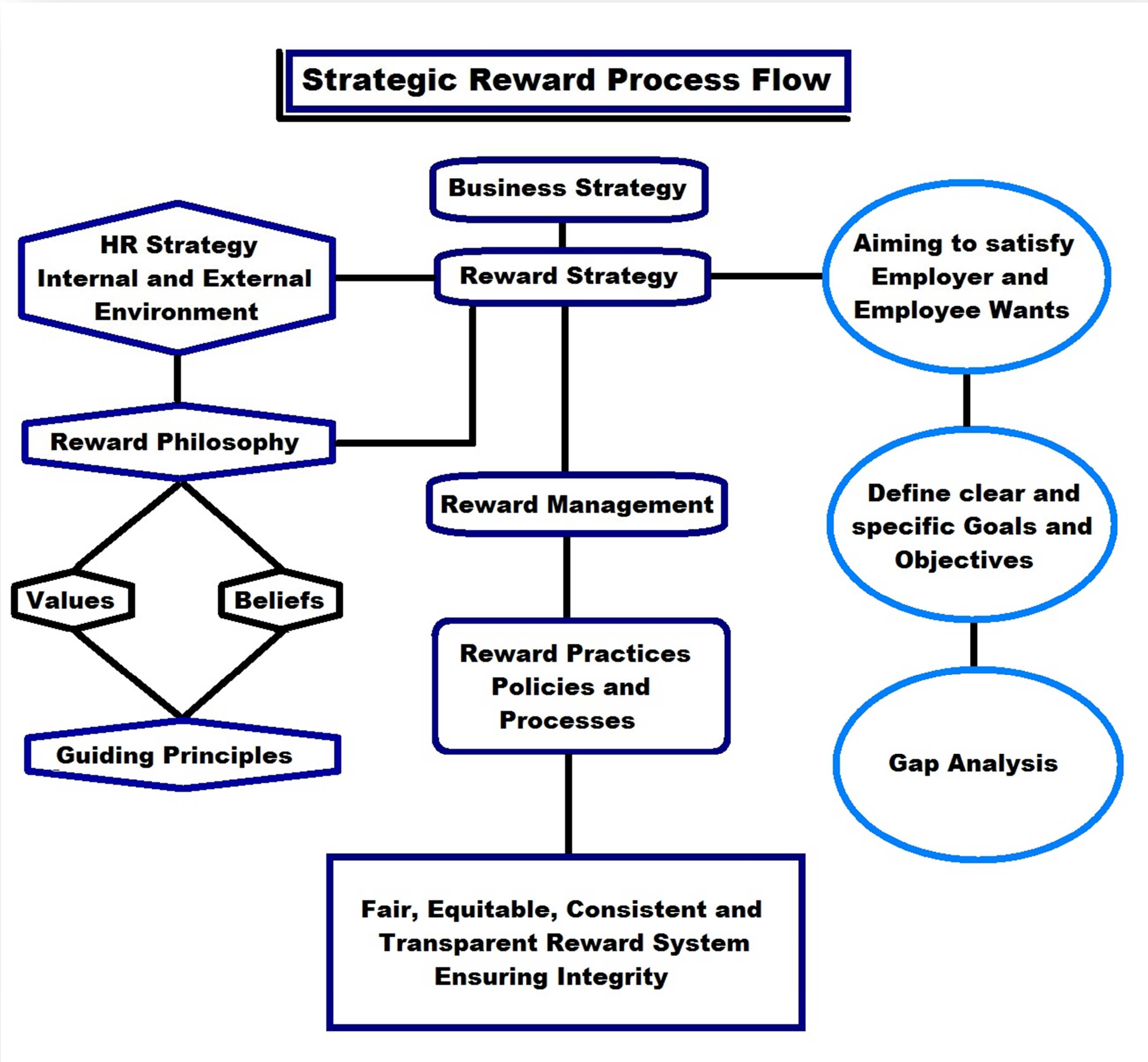

Table 18 – Strategic reward process flow

Inasmuch as reward strategy flows from the overall business strategy (Armstrong, 2006), which implies a complete alignment of the one with the other, it is important that reward strategy would also align with HR strategy. This is a necessary prerequisite in order to effectively and consistently foster integrity within an organization and provide evidence to the entire workforce that all the organization efforts are converging towards a clearly, well identified, common and shared direction and end.

In order to achieve integrity, hence, the reward management strategy alignment process needs to be pursued both at horizontal and vertical level.

This might reveal not to be enough; in order to encourage and foster integrity within an organization reward policies, consistent and coherent with the business strategy, should also reflect the organization culture and its shared values and beliefs.

Employees are becoming the more and more sensitive to and wary and intolerant of the discrepancies existing between what an organization states and communicates, both by means of formal and informal communication, and what the organization actually does and executes (Longo, 2010b). Employers should completely avoid talking the talk, but do not walking the walk; employee reactions to this specific behaviour tend to become the more and more negative and productive of long-lasting dissatisfaction which is really unlikely to not affect their levels of performance, engagement and motivation.

The impact of reward philosophy and guiding principles on reward strategy development

Reward management's main aim is to support the business in achieving its intended strategy. To attain this objective it is necessary that reward managers and specialists would develop a reward management strategy, identifying the values and guiding principles underpinning this, which have clearly to be based in turn on the organizational values and beliefs.

The circumstance that, in general, the foundations of a reward management philosophy are represented by consistency, transparency, equity and fairness does not clearly mean that all of the employees have to receive exactly the same amount and type of reward. On the basis of a reward philosophy inspired to human capital promotion, for instance, individuals will be rewarded according to the different contribution they make to the business success, profitability, growth and, more specifically, on the basis of the return on investment they are able to generate (Armstrong, 2006).

This is a point employees could be likely to miss; a clear, open and extensive communication process aiming to explain what objectives reward practices are intended to pursue and what behaviour these aim to encourage within the firm should by extension be implemented and periodic refreshing sessions organized.

Line managers, provided these have received the necessary training and showed to have gained what it takes, should become central and fundamental part of this process. Additionally, in order to avoid future disappointment – but also the apparent breach of the psychological contract -, employers should better devote part of the induction process to explain their new recruits the guiding principles, values and beliefs, in other words the philosophy, behind their reward practices. It will also help to make it clear to newcomers what the organization is expected from them in terms of behaviour and performance level and what and how the firm assesses and rewards work and performance.

Reward management philosophy values and guiding principles, consistently with the overall business strategy, need to enable organizations to address reward problems in the mid to long run, namely finding suitable and fair ways to reward people according to their practical and real performance and contribution.

In order to motivate, engage and ultimately retain staff reward strategies must also be based on a total reward approach, considering both intrinsic and extrinsic aspects of reward which, linked as a whole to the other HR initiatives, will produce a multiplicative bundle-like effect capable of boosting individual motivation and engagement.

The importance of a 360-degree alignment

Reward strategy basically aims to provide guidance, direction and a clear path for the development of reward policies and practices enabling employers to achieve their intended overall strategy. During the reward practices formulation, hence, employers should never lose sight of the main aims the business intends to pursue, which should be firmly reflected in the business reward practices. This clearly implies that a reward strategy cannot be developed regardless of the business strategy from which it instead should practically flow, but, on the contrary, that reward strategy needs to be firmly connected and aligned with this.

As suggested by Torrington et al (2008), a reward strategy is, above all, intended to align an organization's payment arrangements and wider reward system with its business objectives. This entails developing systems enhancing chances that individuals will actively seek to contribute to the achievement of their employer objectives. Whether improved quality of service should be amongst the major business aims, this should be reflected in a payment system which rewards front-line staff who provides the best standards of service to customers. If the main aim of the organization would be to increase productivity, an approach rewarding efficiency would rather be more appropriate.

Alignment represents a critical part of the reward strategy development process. Indeed, for crucially important vertical alignment definitely is, it only represents part of the overall alignment process. Another critical aspect of alignment, on which employers should therefore also focus, is represented by the attainment of the horizontal alignment, which refers to the alignment of reward strategies with the HRM practices and policies developed and implemented within the organization.

A clear difference can be indeed identified between the purpose that vertical and horizontal alignment are meant to achieve. Whereas the latter is mostly intended to provide consistency between reward and the HRM practices introduced within a business, the former is mostly concerned with the final scope, that is, providing support for the attainment of the overall business strategy. The predominant scope of horizontal alignment can be consequently identified with ensuring integrity, whereas the most significant goal of vertical alignment can be associated with the attainment of the business objectives. In any case, the successful attainment of both the horizontal and vertical forms of alignment generates a virtuous circle based on the supportive action played by the successful introduction and implementation of a type of strategy over the other.

A 360-degree alignment process is, however, everything but straightforward to achieve in practice, not only because when devising reward strategies reward managers have to take into account a large number of variables, but also and foremost because business strategy and hence HRM strategies and policies, being remarkably influenced by both the endogenous and the exogenous context, are subject to frequent changes which can make the alignment process rather tricky to achieve and, once achieved, difficult to sustain over time.

Such difficulties are sensibly likely to grow when, for instance, business strategies aims and objectives are not clearly stated or understood within the organization.

But this is not all. In order to genuinely attain a 360-degree alignment, reward strategy development also needs to take into due consideration organizational values and shared beliefs. The careful consideration of the impact of these factors over reward strategy can actually enable employers to develop sound reward strategies enabling them to simultaneously attain two different objectives: on the one hand foster consistency and integrity within a firm and on the other hand provide support to corporate culture. Also in this case, reward strategy can actually allow employers to generate a virtual circle where corporate culture and reward strategy reinforce one another. Reward strategy in fact contributes to induce, foster and favour amongst staff the type of behaviour desired by the employer, whereas the values and beliefs underpinning organizational culture support the consistency of the reward practices developed and introduced within the business.

If within an organization fairness and equity are amongst the main values underpinning corporate culture, these have to be imperatively reflected in its reward strategy and system.

It finally emerges that reward systems can be crucially important to foster and encourage the behaviour, ideals and principles an organization values the most and is expected from its staff.

As discussed earlier, one of the most, arguably the most, important form of reward management alignment is represented by the vertical alignment, which essentially aims to consider during the strategy development process the business needs. Notwithstanding, an effective reward strategy also needs to duly take into consideration employee wants and the way they can be satisfied, ultimately balancing the needs of the one with those of the others. This could be indeed considered as a form of alignment of its own and since this kind of alignment is meant to take into consideration the entire staff wants and expectations it can be considered as a transverse form of alignment.

It can finally be concluded that, in order to reward strategy being effectively and practically supportive of organizational objectives and consistent with the business strategy and the other HRM practices, a 360-degree alignment process has to be considered as a mandatory prerequisite. A process, hence, aiming to achieve a horizontal and vertical alignment, but also ensuring the alignment of reward strategy with corporate culture and individual wants and expectations. The attainment of a partial alignment only will surely reveal to produce limited, if any, effects. This method very much recalls to mind the bundling-approach typical of HRM models, that is, an approach according to which only the concomitant, coordinated combination of different actions and initiatives can effectively enable employers to achieve the intended outcome.

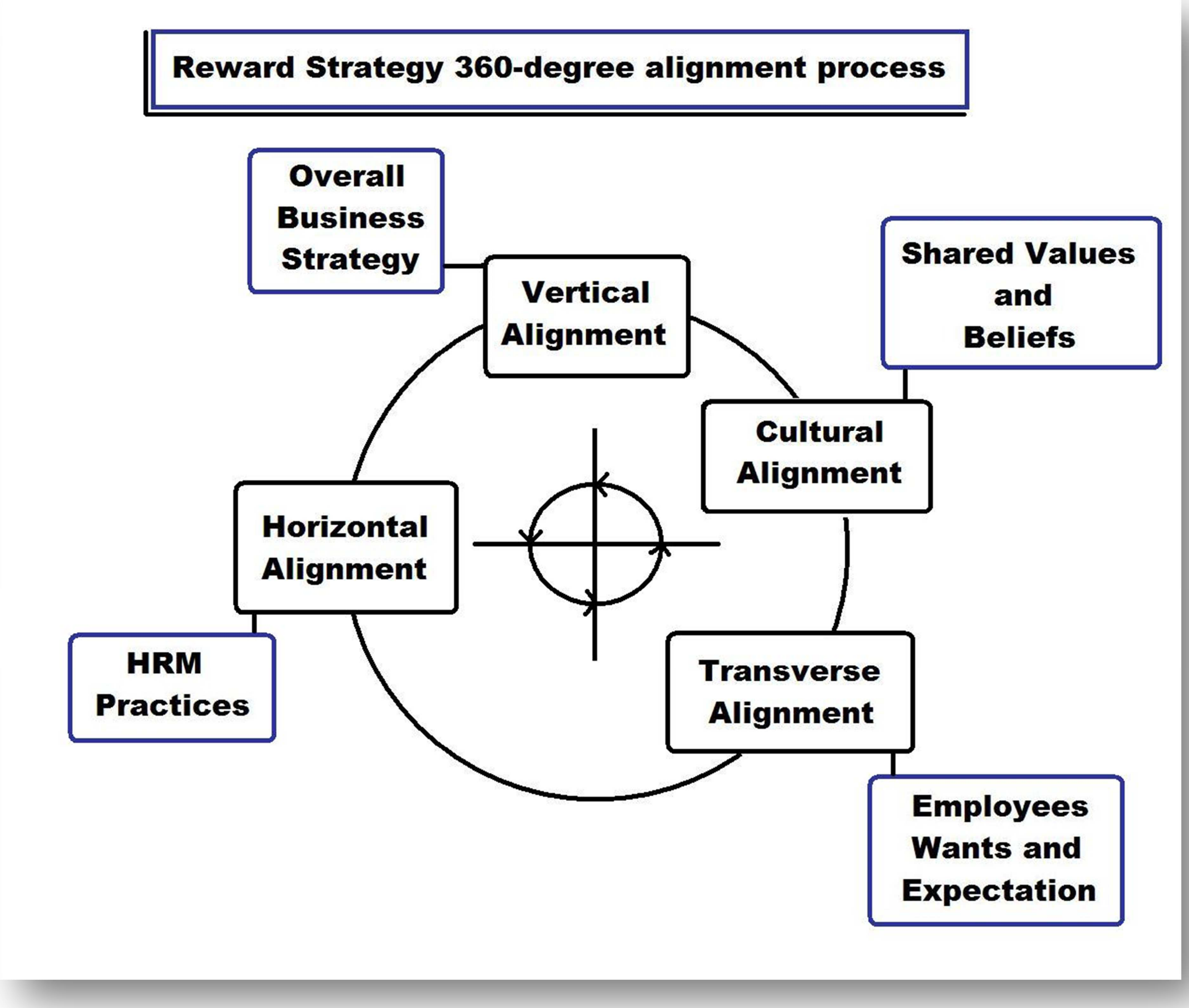

Table 19 - The importance of a 360-degree alignment

The apparent complexity of this method, basically intended to devise consistent and effective reward strategies, however, has not to be confused with complexity and let alone with over complexity. One of the main features characterizing reward strategy should rather definitely be represented by simplicity. Overcomplicated strategies can only contribute to deter individuals to try to understand the mechanism of a reward system and the way it is operated, making employers efforts pointless and causing them to waste massive resources.

Amongst the drawbacks typically associated with complex reward systems can also definitely be included the difficulties which will be experienced by managers when executing the system (Armstrong, 2010). Yet, excess of complexity and difficulty are all too often associated with programmes failures and the consequent withdrawal of the newly implemented or revised reward system.

Theory v execution

Strategies and philosophies may also be developed and formulated in an apparently utterly suitable way, whereas the guiding principles identified on paper can potentially effectually foster an organization's shared values and beliefs, but what matters, in the end, is not only how these founding statements have been formulated and eventually put in writing, but rather how these will be practically translated into policies and most of all into action (Longo, 2011).

Individuals look at strategies and policies with circumspection as long as they will not witness their practical implementation consistently with the tenets on the basis of which these practices have been developed and formulated in theory. "Is the reality that is important, not the rhetoric" (Armstrong, 2006), and it could also be added that it does not matter what employers think they have been able to deliver, but rather how what they have delivered is perceived by their employees (Longo, 2011).

As for strategy in general it is, therefore, crucially important that all of the individuals within an organization, line managers more than others, have clear ideas and a thorough understanding of the reward strategy intended direction and of the aims and objectives its implementation endeavour to achieve. Differently, it is very unlikely that an employer would be able to successfully implement its strategies and policies (Longo, 2011).

The ultimate aim of reward management, strategy and philosophy and of the values, beliefs and guiding principles they are intended to foster, is to introduce and operate a consistent, fair and transparent reward system which needs to be seen and perceived as such by the whole workforce. Whether individuals should perceive some differences between what it is written and said and what it is actually done in practice, consequences should be utterly detrimental. The negative impact caused by such circumstance is likely to generate an even worse climate than that which should have typified the business in a complete absence of any reward practice.

Strategic Approach to Reward Management

As all of the other activities and initiatives planned and implemented by employers, reward management is intended to directly or indirectly motivate, engage and retain employees; which has revealed to be the most challenging task employers need to become acquainted to deal with also in the distant future. Individuals, from their side, are much more likely to be positively influenced by transparency, openness, consistency, integrity and the intrinsic factors linked to their work, rather than only by extrinsic reward, which should be mostly intended to support and consolidate the overall individual positive perception of their employer.

Organizations should invariably pay particular attention to reward strategies and practices implementation. Yet, employers need to do their utmost to avoid that the activities they perform to pursue specific intents may actually avert them to practically attain these or even jeopardise the efforts they are making to implement other initiatives aiming to motivate and engage staff. This is why the rhetoric of reward management, and of the strategy behind it, is of paramount importance. Before translating strategy into action organizations need to do whatever they can to avert inconsistencies and lack of integrity. This objective can be achieved making sound, well-articulated and well thought out choices aiming to enact staff to behave and perform as the business is expected they would. That done, the rhetoric of strategy, philosophy and practices needs to be translated into consistent and effective actions, which is definitely far from being an easy task.

Reward strategy formulation flow

As we have seen above, in order to make sure that reward practices are consistent and coherent with the overall business strategy and could effectually help employers to attain their intended objectives, reward strategy needs to align with the overall business strategy and be inspired by the values and beliefs on which this is based.

To ensure the full alignment of reward strategies and policies not only with the overall business strategy, but also with HR strategy and policies, HR and reward managers should adopt a systematic process which can be actually described as a flow which starting from the overall business strategy proceeds through HRM policies and practices and ends up in the reward programmes developed on the basis of the reward strategies previously determined.

The CIPD (2005) provides a clear and extremely useful graphic representation of this flow or pathway.

This representation gives evidence of the key stages which, starting from the business strategy, reward professionals have to go through in order to consistently and coherently formulate effective reward strategies.

The different stages progress from:

• The organization strategy, mission and goals

Strategic Approach to Reward Management

- The cultural and people requirements to deliver these goals
- The HR strategy and principles
- The reward goals
- The specific reward policies and practices.

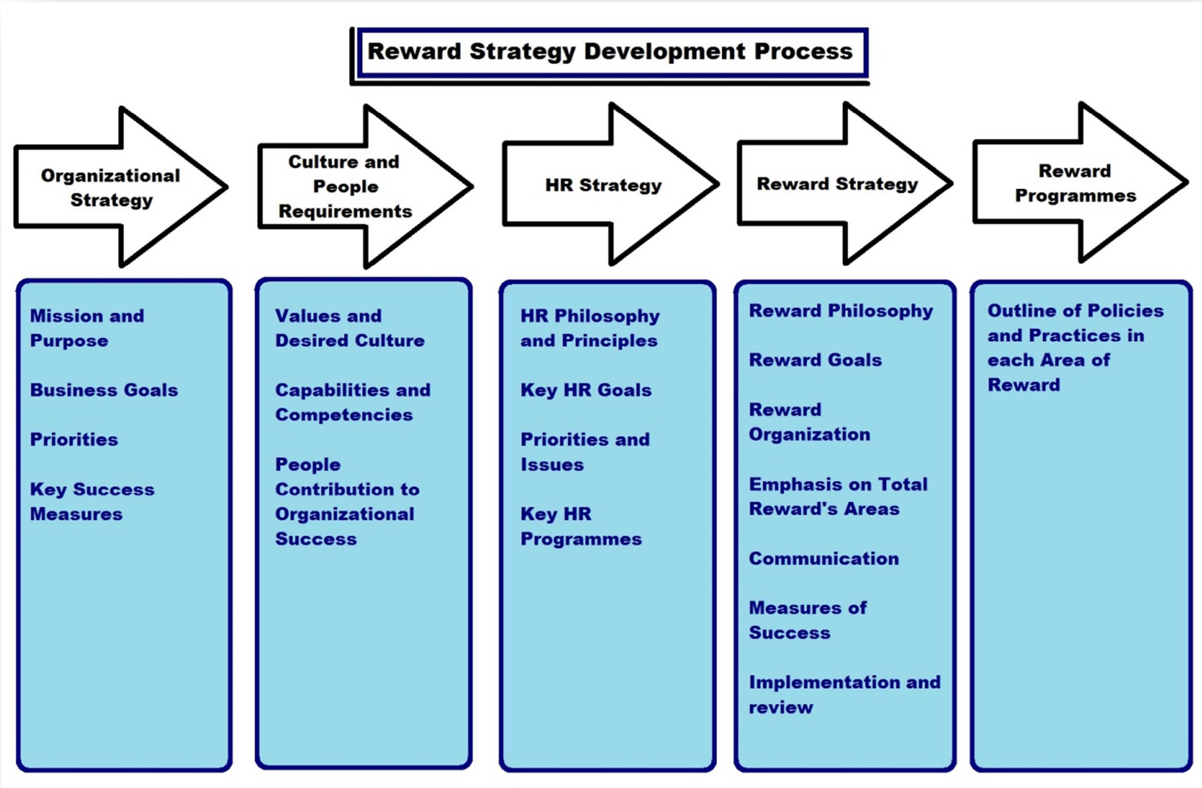

Table 20 - Reward strategy development process (CIPD, 2005)

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Section IV
Reward Risk Management

Underpinning concepts

Reward risk management has captured a broader public and political interest during the last few years because of the alleged role rewards, and more specifically financial rewards, have played in causing the financial services industry troubles emerged in 2007. As a consequence of the severe effects that the financial crisis had caused globally, Central Banks had to inject large amounts of money, also in the forms of some private banks nationalization and part-nationalization, in the bid to hinder the drastic effects triggered off by the downward spiral affecting the banking industry at the time.

The Commission of the European Communities (2009) even not overtly attributing full responsibility to the financial sector negligence for the global financial crisis sparked in 2007 and 2008, openly avowed that the excessive risk taking at the basis of the inappropriate remuneration practices prevalent within the banking sector had certainly played a role and contributed to the significant losses recorded by many financial institutions. The Commission also underscored the circumstance that financial services institutions, rewarding short term profit, were basically prone to encourage dangerous practices likely to provide benefits in the short-term, but exposing banks to substantial losses in the long-term.

Turner (2009), after having underscored the lack of attention paid by both regulatory bodies and financial services firms over the compensation systems, basically encouraging risk, developed by the latter claimed that, albeit it was not possible to determine their relevance, the wrong and improper compensation practices developed within the financial sector had to a degree surely contributed to the burst of the international financial crisis. Notwithstanding, he also posited that the reward systems in place within the financial services industry certainly contributed to the financial crisis less than the inappropriate approaches to capital, accounting, and liquidity management did.

Although the excessive risk taking practices, previously strongly characterizing the financial services industry, can arguably have much wider implications over the effectiveness and appropriateness of reward systems, potential risks connected with reward management are not limited to this (Chapman, 2010).

According to the Chartered Management Institute (CMI, 2010), the concept of risk is not associated with the exercise of predicting whether an event will happen or otherwise, but rather with the impact the occurrence of particular events can have over the attainment of the organizational objectives. This definition is consistent with the ISO Guide Vocabulary for risk management, which defines risk as the "effects of uncertainty on objectives."

A rather different definition of risk is provided by the Institute of Risk Management, the Association of Insurance and Risk Managers and the National Forum for Risk Management in the public sector which define risk as the "combination of the probability of an event and its consequences" (CIPD, 2009). Although the two definitions differently consider the relevance of investigating the chances that an event might occur, both definitions clearly highlight the relevance of the impact that some events might produce on organizational planning. It can, hence, be concluded that the idea of risk is sorely associated with the outcome and consequences, which can actually be either positive or negative, that some events can produce over a business goal-attainment process.

The aim of risk management is basically to pinpoint, detect and investigate the risks to which a business can potentially be exposed, determine the effects that these can produce and identify the measures and plan of action which can be executed in order to mitigate their impact over the business. Indeed, in the event occurrences should have a positive impact on an organization – upside risk –, differently from the case in which these are expected to cause a negative impact – downside risk –, employers will clearly try to make the most of the circumstances. It transpires, by extension, that also events likely to have a positive impact over organizational objectives need to be duly considered and investigated.

In general, employers should not struggle to eliminate or prevent the likely effects produced by every possible form of risk, in that this would be an objective virtually impossible to achieve. Risk taking represents an inherent, essential and necessary part of a business activity (CMI, 2010) whether organizations genuinely strive to innovate and be competitive in the market. Being unable to timely and promptly exploiting favourable circumstances, upside risks, would actually represent a massive risk of its own (CIPD, 2009).

Reward risk management should be introduced within organizations, as an essential part of reward management practices, in order to enable employers to assess, and eventually review accordingly, the discrepancies between the way risks concerning reward management are perceived, identified and fixed by employers and to consequently identify the most suitable plan of action these should better develop in order to address the identified issues.

Reward risk management can hence be basically considered as a form of gap analysis enabling reward managers and specialists, or more in general those in charge of reward within a business, to effectively and successfully identify reward-related problems and properly manage these. In order to bridge the gap, one of the main objectives reward risk management have to pursue is represented by the need to thoroughly identify reward-related challenges and avoid that some of them could not be timely perceived by employers (CIPD, 2010), assessed and ultimately properly sorted out.

Reward risk, therefore, is not only associated with the processes aiming to set the current issues, but it is first and foremost aiming at predicting and anticipating the way to mitigate the negative impact risks are expected to pose to the organization. As suggested by Chapman (2009), rather than taking a reactive approach to reward risk employers and reward managers should adopt a proactive role regularly assessing and reviewing the risks which could potentially arise from the reward systems they manage.

Indeed, reward risk definitely represents a crucial part or reward management insofar as Trevor (2008, 2009) suggests that the practical role of reward management should consist in mitigating risks associated with compensation systems management rather than in helping employers to achieve competitive edge and maximise value. Yet, the Author associates reward managers and specialists role with that of risk managers and successful reward management with successful risk management, positing that further research should be directed to investigate this aspect.

Although it can neither be agreed that the role of reward management should be considered limited to risk management, nor that reward has little or even nothing to do with business strategy attainment, the pivotal importance of reward risk can be taken as axiomatic. Reward professionals need to take extra care with this aspect of reward and do whatever they can in order to gain the required knowledge and expertise necessary to properly anticipate threats and find appropriate solutions to the risks associated with compensation and reward.

The impact of the contextual factor

Potential risks affecting reward systems can essentially derive both from the endogenous and exogenous context. Reward managers and specialists in charge of this delicate and crucially important activity in order to proactively approach the issue need, hence, to pay careful consideration both to the internal and the external environment. Yet, some of the risks apparently emerging from the internal context can indeed be rooted in events and circumstances originated in the external environment.

Typical examples of external pressures over businesses reward risk management are represented, for instance, by equal pay rules and by the legislation developments causing the pension provisions costs to rise and potentially impacting the overall employees' as well as employers' taxation.

Indeed, also the increased costs of the benefits provided by organizations for their staff, with particular reference to healthcare, wellbeing and insurance costs, can pose a serious threat to employers in terms of reward risk management.

A likely menace to reward systems might also come from the labour markets, which, in different circumstances, can put employers under serious pressure. Market pricing data or, more in general, the comparison of internal rates of pay with those offered in the external market, could reveal that the reward packages offered by competitors are by and large higher than those an employer is capable or willing to offer to their employees. This could in turn jeopardize the employer ability to attract and retain staff. New entrants to the financial services industry, for instance, just a few years ago were somewhat of obliged to offer the same types of rewards and to adopt the same approach to the mechanism according to which these were paid as the others companies operating in the sector in order to attract and retain quality individuals. Whether some employers should have attempted to try and reverse the trend, this could have turn to be a serious problem for these employers, with severe drawbacks: if they would have changed their reward practices whereas competitors would have not, these would have been likely to completely lose their capability to retain their talents and attracting new ones.

All the types of risks need to be carefully assessed and investigated by the employer. Risks can reveal to be remarkably detrimental for businesses even though these are not apparently likely to directly impact the organization from the financial point of view. Some risks despite not producing direct and immediate financial negative consequences can have a direct negative reputational impact on organizations, which in turn can also potentially produce financial drawbacks.

The largest number of constraints and hence reasons for concerns over reward systems are anyhow coming from the internal environment:

- The inability of reward managers to implement effective reward systems for lack of the required funds, especially during recession, downturn and slowdown periods;
- Systems perceived as unfair by staff;
- Types of rewards do not appreciated by individuals;
- Line managers incapability to consistently execute rewards practices and having limited, if any, knowledge of the organization reward system;
- The resistance offered from Unions to the effective implementation of the intended reward strategy;

are just some examples of the different pressures coming from the internal context having a potentially remarkable negative impact over reward systems.

As anticipated above, some of these negative factors, albeit generated from within the concern, can actually derive from the exogenous context. For instance, the fact that some types of rewards, especially benefits and perquisites, could no longer be perceived as useful and appreciable by individuals, could be due to the technological advances accounting for employees no longer perceiving a given benefit as attractive. Indeed, also the general financial and economic outlook can contribute to change employee perception of rewards. During downturn periods employees might possibly prefer benefits and types of rewards enabling them to reduce their regular spending rather than perquisites considered as status symbols.

Findings of the CIPD Reward Risks Annual Report (2011) revealed that current major concerns amongst reward practitioners and consultants about reward, regardless of the rank of each identified risk, were identified with the following items:

- ✓ Employees don't appreciate value of total reward offering,
- ✓ Reward not engaging employees,
- ✓ Unable to increase pay levels due to budget constraints,
- ✓ Employees don't understand performance and behaviour requirements,
- ✓ Incentives not motivating,
- ✓ Inability to communicate desired performance and behaviour,
- ✓ Inability to change reward practices quickly,
- ✓ Reward is not perceived as fair,
- ✓ Increasing pension costs,
- ✓ Line managers have poor understanding of reward.

The latest investigation (CIPD, 2012) also revealed that for the next two years, still in terms of reward risks, employers are mostly concerned, in order of importance, about:

- ✓ Attraction and retention of key employees,
- ✓ Pension cost management,
- ✓ Budget constraints,
- ✓ Misaligned reward and business strategy,
- ✓ Incentives not motivating,
- ✓ Understanding of performance and behaviour requirements,
- ✓ Legislative change and compliance,
- ✓ Employee reward understanding,
- ✓ Reward discrimination – equal pay.

The two investigations actually provide a rather comprehensive list of risks to which reward systems could be exposed. Clearly, businesses are different one another and some firms can actually be more subject to experience some kinds of risks rather than others. Anyhow, the enumeration of all of these issues can help employers to gain an insight of the different types of internal and external risks to which their businesses might be exposed and better detect and deal with them.

The different forms of reward risks

As discussed in the preceding paragraph, reward risks can arise both from the internal and the external environment, but in order to properly analyse risks and manage them effectively a more specific and detailed risks classification is definitely required. The CIPD (2009) proposes a categorization, based on the findings of its research, according to which reward risks can basically be grouped in seven main categories: strategic, behavioural, financial, operational, implementation and change management, legal and ethical and governance risks.

Strategic reward risks

This group of risks mainly includes all of those risks having an impact on the organizational objectives attainment process. More in particular, this category is concerned with risks which could derive from the misalignment of the reward system developed within an organization with its business strategy, HR practices and organizational structure.

Indeed, in order to achieve its intended strategy a business also need to rely on individuals having the required skills and expertise; attraction and retention of quality staff can consequently be considered too as part of the strategic risks an employer should be ready to deal with. It is also included into this group of risks the reputational risk, that is, the adverse media coverage which a business could undergone because of its inappropriate reward system.

Behavioural reward risks

To achieve their intended strategies organizations do not only need individuals with the right and necessary capabilities, they also need that these individuals genuinely contribute to the organizational success and behave in the way the employer is expected they will.

Behavioural risk grouping is therefore basically associated with individual behaviour and perceptions. Reward systems need to induce discretionary behaviour amongst staff and help stimulating individual innovation and participation. But this is not all, compensation practices also need to be perceived as fair by staff and encourage individuals to perform at the desired standards in order these to produce the expected results.

Financial reward risks

Personnel costs undoubtedly constitute the largest expense for each kind of organization, employer concern that these costs are not dealt with effectively and efficiently is, therefore, absolutely comprehensible and justified. Risks which can actually be associated with employee reward widen from pension to healthcare cost management and from excessive cost for employee benefits to offering higher than average labour market salaries.

Can also be included into this grouping the risks associated with an organization incapability to meet the reward packages payments agreed with employees because of cash flow difficulties and the issues relating to lack of compliance of the pay system with tax legislation. Indeed, in addition to the correct application of tax legislation, reward professionals also need to ensure that tax legislation is also efficiently applied.

Operational reward risks

Are included in this category risks associated with reward decisions made on the basis of unreliable data gathered in the relevant labour market. Clearly, whether benchmark data are unreliable at best and totally erroneous at worst, decisions made in theme of reward systems developments will clearly be disastrous.

Operational risks are also very much associated with a defective and unreliable payroll system. In broad terms, the basic foundations of HR are represented by the reliability of a payroll system. Sometimes, even the entire function is tested and evaluated on the basis of how effectively and successfully the payroll system is operated and administered. The regular appearance of inaccuracies in employee salary slips is hardly leading to HR taking a seat on the business board and risks associated with this aspect should, hence, be seriously considered; not to mention the impact that they produce in terms of additional work for the same HR function to implement the required adjustments.

The payroll system is also potentially subject to the risk of internal frauds, which represents another good reason to monitor this risk very closely. It is worth stressing the circumstance that these risks can actually occur also in those cases in which the payroll is outsourced, which entails that, in such cases, a process enabling the employer to control the outsourcer activity should be introduced.

Operational risks, however, are not limited to salary benchmark data and payroll system management. Indeed, data confidentiality and IT system efficiency and effectiveness, enabling employers to securely store and process reward data, can also be unreservedly considered components of this risk grouping.

Change management and practices implementation reward risks
The most important risk within this category is represented by the inability of the reward system to support the changing scope or strategy of an organization. This clearly is a responsibility of the reward management team and reward specialists in the first instance in that they need to have the capability to understand the business and design and develop supportive and consistent reward strategies and systems accordingly.

Organizations need therefore to effectively communicate to their staff the worth of the reward packages they offer. This capability, or rather the positive outcomes of the efforts done by organization in this sense, cannot unfortunately be taken as axiomatic, so that inappropriate communication of an employer’s reward offer represents a risk of its own.

The effectiveness and success of reward practices, however, is not judged and achieved on the basis of the evaluation of the theories underpinning these and of the approach adopted for their design, but rather by means of their successful execution. Line managers’ incapability to implement reward practices and explain to their direct reports the value of the packages they receive definitely represents another threat to reward risk management.

For unionized organizations and in general for organizations where works councils are recognised, the open opposition of these representative bodies to the reward practices and policies an employer intends to introduce and implement within the business can clearly represent an additional remarkable threat to reward management.

Legal and ethical reward risks

Legislation aiming to regulate the employment relationship has constantly widened; reward systems need consequently to be designed and developed according to the legislation constraints. Equal pay legislation, just to name an example, represents a legal constraint now common to many countries around the world.

However, as we have seen, occurrences impacting reward can also be positive - upside risks -, and legislation, especially tax legislation, whether deeply known and opportunely exploited by reward specialists, can enable employers to offer their staff more appreciable reward packages at lower costs.

Reward systems should also be seen as a good chance to foster ethics and integrity within an organization; the circumstance that reward practices could be developed neglecting the ethics fostered within the business will turn to be a reward risk itself.

Governance reward risks

Taking as axiomatic that governance reward risks should be mostly concerned with ensuring that reward measures and decisions made within an organization are impartial, fair and unbiased, should be included in this group of risks all of the risks which could affect this fundamental requirement. Reward managers and professionals should hence do whatever they can to avoid that individuals with a potential conflict of interest might affect reward decisions.

After the financial crisis burst, the need for remuneration committees playing a more important role in reward strategy development has remarkably increased. Indeed, Committees' involvement should not be limited to executive pay decisions only, but should be rather extended to the overall organization reward system development. This clearly entails that Committees members, in order to effectively and efficiently carry out this task, should have the required expertise in the field of reward as well as in that of risk management. This could not always be the case, so that HR should take responsibility to assess and establish whether the remuneration Committees' members have the required knowledge, competence and confidence to properly carry out their crucially important role (CIPD, 2009).

Risk Management and Reward Risk Management

Risk management and consequently reward risk management need to be performed in a structured and systematic way. Effective reward risk management requires a few, but extremely important stages to be carried out in a predetermined and ordered fashion.

In those organizations where risk management approaches and techniques already exist, it is recommended reward risk management to be carried out according to the risk management approaches already operated in the business. Indeed, as suggested by the CMI (2010), "risk management is most effective when embedded into existing systems which are established and accepted, rather than creating stand-alone systems." This approach will also allow employers to save the time required to design and develop the process from scratch and to confer it, and to the outcome it will produce, more reliability and credibility within the concern (CIPD, 2009).

In those cases in which risk management procedures already exist, but are not considered satisfactory or are, in general, deemed weak or inappropriate, reward professionals should work together with risk managers in order to develop and design a common approach enabling all of them to successfully deal with the issue and attain effective results.

Although a number of different approaches and methods to risk management have been developed over the years, some important steps, common to the different models developed so far, can actually be identified.

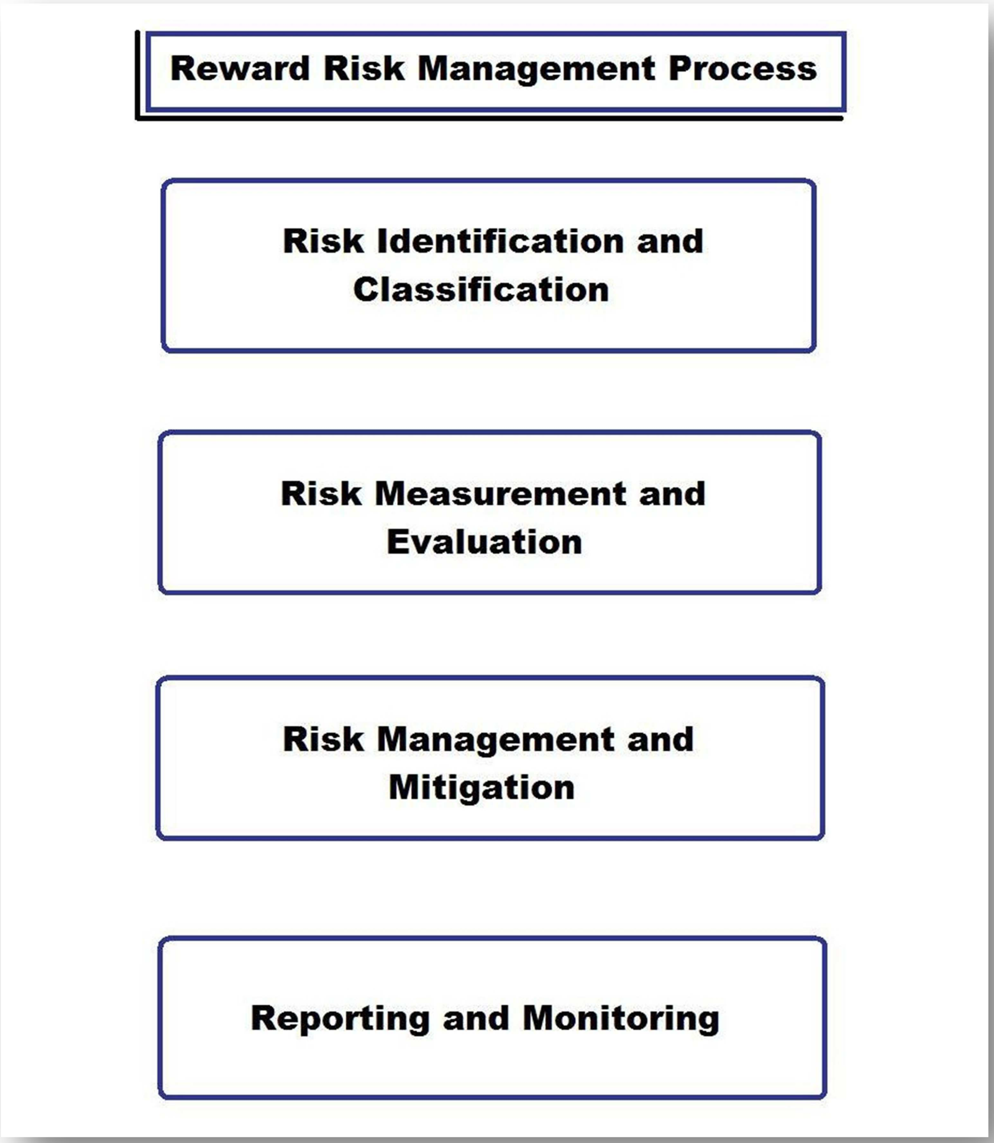

Table 21 – Reward Risk Management Structured Process

Reward Risk Management

Risk identification and classification

The first step of a structured approach to risk management is in general represented by the risks identification and classification. This stage is particularly important because, putting reward professionals in the position to determine to what types of risks their organization may be exposed in term of reward can enable them to determine, amongst the identified risks, those which are likely or are expected to have the strongest impact on the business reward system (CMI, 2010). A more exhaustive assessment of the effects produced by each identified risk will be subsequently carried out in the successive phase of the process.

Reward managers and specialists should do whatever they can to identify the largest number of risks to which the organization's reward system could realistically be exposed. In order to effectively and successfully attain this goal, reward professionals should involve individuals coming from the different functions of the business and build a real network by means of which gather as much information as possible about the events which might take place in the incoming and distant future. The aim is clearly that to try and found out whether, and eventually how, these occurrences could affect the organization reward practices.

Without a doubt, the functions which can mostly help reward professionals in the risk identification process are risk management, compliance and internal audit.

The compliance and risk management functions can indeed provide reward managers some precious information about the range of risks to which the business could be potentially exposed. Whereas regulations directly associated with or impacting reward should be, even though this may not invariably be the case, known by reward specialists, it is possible that rules not directly associated with reward, but potentially affecting it, might not. Compliance and risk managers support and knowledge could, hence, reveal to be of paramount importance.

Internal Audit could indeed reveal to be an important source of relevant information for reward specialists too. Being auditors aware of the risks which might be run by the business and being these regularly involved in testing the effectiveness of the control system introduced by the employer to contrast them, auditors could have already identified the risks which may potentially affect the firm reward system.

Additional relevant information can actually be gathered within the same HR function. People in charge of the personnel budget, especially when using software enabling them to make future predictions about costs by means of "what-if" scenario tools, can provide useful information about the future total personnel costs which an employer would be called to honour according to the eventually changing circumstances.

In the organizations where there is not a personnel budgeting unit, these data can be provided by the Finance function. This function should actually be able to also provide reward specialists key information about the expected and anticipated future legislation developments which may have an impact on the business reward system. Finance could reveal to be a precious source of intelligence as regards, for instance, the possible introduction of new regulations affecting the business pension scheme. Indeed, this information could potentially be provided by the internal payroll unit or by the consultancy to which the payroll process has eventually been outsourced.

Other crucial HR allies in the risk management process might be represented by the organization business partners. These usually reveal to be a tremendous source of intelligence as for what concerns employee reactions and attitude towards the reward system executed within the business and the practical effects this produces in terms of retention (CIPD, 2009).

All of these sources are clearly of paramount importance, but there is still an additional source which can enable employers to collect remarkably important information, namely trade unions and works councils. The individuals leading these groups are usually very close to employees; they undoubtedly know their genuine thoughts on, and perception of, the current reward system and their likely reaction to, and appreciation of, a different reward system eventually introduced by the employer. Indeed, experienced unions officials, who have an overarching and rather thorough knowledge of several organizational contexts, might have developed some expertise and understanding of reward and could consequently provide reward managers with valuable insights into the subject.

Additional data, relevant for present and future reward decisions, can also be gathered within the internal environment by means of:

- ✓ Exit interviews: these can enable reward professionals to find out whether it has ever occurred employees having left the business by reason of reward-related reasons;
- ✓ equal pay audits outcome: these can enable reward specialists to determine whether pay is perceived as fair and discrimination as an existing and serious problem by employees;
- ✓ HR managers and line managers who can provide information about: the rate of the accepted employment offers, why some of these have not been accepted, the turnover rate, etc. (CIPD, 2009).

Relevant data to reward risks have not to be clearly collected only internally; the external environment too can in actual fact enable employers to gather significant and useful data. This information can be gathered by means of participation to and consultation of:

- Research;
- Statistics and publications reviews;
- Seminars and conference;
- Government consultation papers, where available;
- Employment law future trends;
- Outcome of court cases.

Risk measurement and evaluation

This analysis will enable employers to investigate and determine the likelihood that the identified reward risks will actually occur in practice and eventually the magnitude of the impact these are likely to produce (CIPD, 2009).

The approach most widely used in risk management to assess risk probability is the Probability Impact Matrix (PIM). This method basically consists in associating with each risk identified a numerical value in order to express both the likelihood that a risk might occur – ***probability*** - and the impact that this will eventually have on an organization reward system – ***impact***. The final index will be obtained multiplying the value associated with probability by that associated with the impact. The higher the final score related to each risk, the higher the probability that it actually will arise and have a considerable impact on the reward system. As such, this approach enables employers to determine the priority order according to which the identified risks need to be dealt with (Risk Management Capability, 2011).

In general, both impact and probability are assessed having recourse to a five bands scale. To both probability and impact is associated a numerical value corresponding to the scale: very low, low, moderate or medium, high and very high. Are actually these values which, multiplied the one by the other, will produce the final score.

Probability		Risks Probability Impact Index				
Very High	**0.8**	**2.4**	**5.6**	**12.8**	**32**	**80**
High	**0.6**	**1.8**	**4.2**	**9.6**	**24**	**60**
Moderate	**0.4**	**1.2**	**2.8**	**6.4**	**16**	**40**
Low	**0.2**	**0.6**	**1.4**	**3.2**	**8**	**20**
Very Low	**0.1**	**0.3**	**0.7**	**1.6**	**4**	**10**
		3	**7**	**17**	**80**	**100**
		Very Low	**High**	**Moderate**	**High**	**Very High**

Impact

Figure A – Example of Risk Probability Matrix

In the example - Figure A, risks whose indexes are included into the red-shaded cells represent the most urgent reward risks which need to be mitigated and against which reward managers should take immediate and firm action. Risks included into the orange-shaded cells are those against which reward professionals need to deal with soon after having appropriately and effectively found sound solutions for the red-shaded risks. Finally, it will be the time to deal with those risks whose index has fallen into the green-shaded cells, the less urgent to be handled.

It is important to underscore the fact that probability impact matrix tools do not represent absolute methods to risks management. This kind of approach will enable reward professionals to assess reward risks relativities, that is, to determine amongst the otherwise identified reward risks which are the most threatening for an organization and need, hence, to be promptly dealt with. This method, however, does not enable reward managers to detect new risks, so that those risks which have not been identified by means of other tools or approaches during the previous stage and have not consequently been included into the matrix, could still continue to pose a serious threat to the business and, what worse, remain unaccounted for.

Reward specialists should be aware of this circumstance which, however, cannot be considered as a real limitation of this approach, in that this method simply aims to categorize risks according to their detrimental impact on organizations, whereas it is not concerned with also identifying the variety of risks to which a business could actually be exposed. It can be said that PIM is to risk management as job evaluation is to grading jobs; also in the latter case the tool enables employers to determine the scale or relativities amongst the identified jobs, but if not all of the existing roles have been taken into consideration during the exercise, it is obvious that something in the end will not work properly. The reason of this occurrence, however, is the omission of one or more roles, that is, the misuse of the tool and not the ineffectiveness of the job evaluation exercise.

Probability Impact Matrix approaches are not performed in isolation. There are a series of additional activities which need in fact to be carried out in association with these. Amongst them, the identification of the ownership of each risk and the establishment of the relationships eventually existing among the risks identified. Also in this case, the powerful effect of the bundling approach, even though in a negative fashion, could come to play. Each risk can indeed have a negative impact on the reward system, but in combination with others the extent of this impact could result further magnified. In this case, however, it would be wrong having recourse to additional arithmetic calculations, as for instance summing single indexes, to determine an overall risk index (RMC, 2011).

An additional important aspect to consider is that not all of the identified risks need to be mitigated; it essentially depends on the pre-identified level of risk appetite and risk tolerance (RMC, 2011). This stage is therefore crucially important in that it actually also provides employers precious insight to decide whether and in which cases accept and manage risks.

As discussed earlier, the events impacting a reward system are not necessarily negative – downside risks –, some occurrences could indeed produce positive consequences for the organization and represent real opportunities for reward specialists – upside risks. However, in order to produce the desired effects these events need to be promptly identified and timely exploited by reward specialists.

Also the positive events, like the negative, should be hence appropriately investigated and assessed. To this extent the Probability Impact Matrix can, once again, definitely help. A mirror matrix, developed from the matrix used to exclusively assess threats, will enable reward specialists to attain the objective, that is, assessing at the same time and by means of the same tool both opportunities and threats (RMC, 2011), Figure B.

		Probability Impact Index											
		Risks					Opportunities						
Probability													Probability
Very High	0.8	2.4	5.6	12.8	32	80	2.4	5.6	12.8	32	80	0.8	Very High
High	0.6	1.8	4.2	9.6	24	60	1.8	4.2	9.6	24	60	0.6	High
Moderate	0.4	1.2	2.8	6.4	16	40	1.2	2.8	6.4	16	40	0.4	Moderate
Low	0.2	0.6	1.4	3.2	8	20	0.6	1.4	3.2	8	20	0.2	Low
Very Low	0.1	0.3	0.7	1.6	4	10	0.3	0.7	1.6	4	10	0.1	Very Low
		3	7	17	80	100	3	7	17	80	100		
		Very Low	High	Moderate	High	Very High	Very Low	High	Moderate	High	Very High		
				Impact					Benefit				

Figure B – Mirror Matrix

During the risk assessment and evaluation phase, it is important to duly consider that some risks can produce mixed effects, for instance having a limited financial impact, but likely to produce remarkable reputational downsides. Financial services industry firms, for example, as a consequence of the financial crisis and of the causes behind it, have suffered the combined negative effects produced by both financial loss and reputational damage.

Risk management and mitigation

The third stage of the process is basically concerned with deciding how to handle the reward risks identified, consistently with the business risk appetite as defined by the board at a given time. As we have anticipated above, risks cannot be completely avoided and averted by employers for the simple reason that risk is itself part of each business activity. Appropriate risk management should, hence, recognize that employers take risks having full understanding and consciousness of the impact that specific events can have on their organizations at any one time (CIPD, 2009). If on the one hand this means that employers deliberately take risks, on the other hand this also requires that businesses have to decide and set beforehand the limit or level of risk which they are willing to take. This limit is broadly known as risk appetite, although someone wrongly refers to this concept in terms of risk tolerance. In order to avoid mix-ups the Institute of Risk Management (2011) has made a clear distinction between the two terms. ***Risk appetite*** is defined as the "amount" of risk an organization is willing to accept in order to attain its pre-identified objectives. Albeit the term appetite might mostly induce to think to the food required to satisfy one's wants, in term of risk management risk appetite should be rather intended as the level of risk in front of which an employer is still in the position to decide whether to "fight or flight." The Risk appetite, therefore, identifies the circumstances in presence of which employers are still in the position to decide whether to face a risk, which these may consider worth to deal with for the attainment of their objectives, or otherwise. It identifies somewhat of a threshold which employers can still decide to cross. It essentially depends on employers' appreciation of the circumstances; the mitigation of that risk, albeit at borderline level, may produce significant benefits well-worth to take the risk. Differently, the idea of ***risk tolerance*** is associated with the level of risk an employer is not prepared and ready to face or to venture in order to achieve its organizational objectives. This is an area, hence, whose borders are impassable.

In order to reward specialists effectively and properly carry out this phase, these need to have gained a thorough and overarching knowledge of all the risks likely to have an impact on the business reward system and have prepared in advance a scale of priority consistent with the current risk appetite.

To approach risk management in a structured and systematic way, developing a risk map will definitely reveal to be beneficial, if not absolutely necessary. An example of risk map is shown in Figure C. The proposed mapping method includes the option to insert the risk index as determined by means of the Probability Impact Matrix and to update each item's score after the execution of the actions identified to mitigate it.

Risk Group	Description	Index	Owner	Mitigating actions	Implementation date	Index after actions implementation

Figure C – Risk Map (adapted from CIPD, 2009)

Reporting and monitoring

This activity, which can be associated with the lesson learned logs typical of project management practices, represents the last stage of the reward risk management process. A reporting activity can indeed turn to be very useful for future occurrences as a repository where to keep trace of each risk assessed, of the actions taken in order to mitigate these and of the outcome produced in the different circumstances.

Monitoring risks and producing reports, providing useful hints about how to evaluate the different occurrences and putting managers in the position to make informed decisions in the future, can definitely reveal to be a tremendously useful activity (Risk Reward, 2011), well worth the efforts and time it might sometimes require.

Proactive and structured approach to reward risks

As we have seen, to effectually approach the delicate aspect or reward risks both a proactive, rather than a reactive, and systematic method is definitely advisable

(Chapman, 2009). During the process and according to its different phases, regardless of the specific technique used to execute reward risks management, reward professionals should always consider and keep in mind a few, clear tenets which will help them to avoid the pitfalls usually associated with reward risks. Rigorously considering and applying these fundamental principles will enable reward managers and specialists to stay focused on the process and to develop and introduce sound reward risks practices and procedures.

The recommended tenets to reward risks have been developed and formulated by the Chartered Institute of Personnel and Development (CIPD, 2009) on the basis of the findings of a specific investigation carried out in 2009. These principles are indeed also extremely helpful to summarize the main concepts and topics investigated and analysed so far. The suggestions which follow can be considered somewhat of a road map and as a guidance to manage reward risks and make sure that the process is dealt with properly and effectively throughout and that all of the necessary stages are properly and carefully weighted and executed.

1 - Establish effective reward risk intelligence-gathering systems

Effective information-gathering is necessary to identify the possible risks arising both from the external and the internal environment (CIPD, 2009).

This actually represents one of the most important stages of the process in that, as discussed in the preceding paragraphs, there really are a large number of risks originating both in the endogenous and exogenous context. Yet, these risks are also subject to change over time and likely to take a different threatening degree. Knowing which these risks can be as early as possible in the process and timely trying to come up with effective, appropriate countermeasures could clearly reveal to be crucially important.

The strategic significance of this activity is also associated with the circumstance that matrix approaches to risk management do not enable employers to identify risks, but only to determine their relevance. Is hence by means of an established and robust intelligence activity which reward managers will be able to detect and include in a mapping system all of the possible risks to which a business can realistically and potentially be exposed.

2 - Proactively review your reward strategy and systems for risk

Reward strategy design, execution and impact can incur in a whole range of risks. It is consequently strongly recommended to review reward strategy in the light of the following types of risks, which have previously been more extensively discussed: strategic, behavioural, financial, legal and ethical, operational, implementation, change and governance (CIPD, 2009).

This classification can help employers to assess the different types of risks and identify the skills and eventually the resources necessary to properly and effectively handle and deal with them. Financial risks, for instance, may require the organization board to review the personnel budget, whereas implementation risks can require a genuine involvement of the overall business management and a sound preparation and training of line managers, including the enhancement of their communication skills.

3 - Use established risk management tools to assess and manage identified reward risks

Once risks have been identified, appropriate tools, like impact-probability matrixes and risks maps, need to be used to asses and manage them (CIPD, 2009).

As we have seen, the Probability Impact Matrix is one of the tools which can be used by reward professionals in order to determine risks relativities, whereas it cannot help to determine and detect the risks to which an organization can be exposed. Risks identification and classification cannot however be considered as a per se exercise. Developing multiple solutions or possible solutions is by extension necessary to ensure that, the moment arrived, the organization will be ready to implement the pre-identified measures necessary to contrast and mitigate the emerging risks. Yet, depending on the changing circumstances, the pre-identified measures could not invariably reveal to be the most appropriate; these need hence to be constantly assessed and eventually promptly reviewed.

It should not really be neglected that this process and the identified tools necessary to implement it, can also enable reward specialists to identify opportunities in addition to threats. Reward managers should therefore be always ready to take advantage of these opportunities and do not exclusively focus on threats identification. Missing good opportunities in fact represents a risk of its own and, for the employers, arguably one of the most undesirable types of risks.

4 - Manage risks consistently with your reward risk appetite and tolerance

As seen in the previous paragraph, risk management is not about completely eliminating all of the identified risks, which could reveal an impossible feat to achieve, but is much more about managing risks in order to make them acceptable. It is, hence, first and foremost necessary to set and define, working in close collaboration with the business management, the level of reward risk deemed as acceptable by the employer. This represents indeed a necessary prerequisite in that risks will be managed according to this decision (CIPD, 2009).

This aspect is of paramount practical importance since it essentially provides reward specialists the guidelines for these directing their efforts to the risks requiring immediate action, which whether not promptly tackled could immediately produce negative and undesirable effects, whereas preventing these to waste time dealing with the types of risks which the business board has deemed as acceptable.

5 - Build your risk management capability and build a permanent risk management culture

Anticipating every reward risk which may affect an organization is clearly a difficult feat. Notwithstanding, every organization need to build and develop the abilities, skills, competencies and resources necessary to constantly monitor and keep threats under control, in order to be ready to take appropriate and consistent action should any problem arise. Reward risk management does not require a frequency or schedule to be carried out; it should rather be considered as an activity that the employer has to invariably perform as a matter of course (CIPD, 2009).

The influence exerted by the external environment and the pace at which changes occur, require reward managers and specialists to be constantly vigilant. The knowledge of the exogenous as well as of the endogenous environment and of their developments is of paramount importance. This knowledge can in actual fact enable employers to be ready to face threats, but also to promptly exploit opportunities as soon as they arise. Reward professionals need to be extremely vigilant, but also capable to analyse and appropriately interpret events, always considering both sides of the occurrences and hopefully anticipating them, and being invariably ready to turn threats into opportunities whenever possible.

The need to develop and implement appropriate risk and reward risk management practices cannot be acknowledged exclusively by the people technically competent, but need to be perceived as important by all the employees. It is, therefore, paramount to embed risk and reward risk management in the business culture.

Attaining the aim

Reward risks is one of the most, arguably the most, difficult tasks with which reward specialists will be prompted to cope with in the near as well as in the distant future. By extension, reward professionals need to do whatever they can to become acquainted with the rhetoric and practice of this subject in that it is indeed sorely difficult being able to predict and recognize the future events which might have an impact, both positive or negative, on an organization reward system and promptly come up with appropriate and fitting solutions to effectually deal with these. In order to constantly be prepared and ready to face all of the occurrences to which an organization is potentially exposed, reward specialists should, hence, develop a series of specific competencies and skills.

First and foremost, reward specialists should make extra efforts to gain a thorough and in-depth technical knowledge of reward (CIPD, 2009). Being technically prepared will contribute to these professionals feel more comfortable when managing risks and help them to more promptly and deeply understand phenomena and the impact these might have on reward. Yet, this capability will certainly enable reward professionals to more quickly find suitable solutions to contrast or take advantage of the emerging circumstances. This should ultimately help these specialists being professionally acknowledged within the organization and enable them to easily build the network they need to constantly gather information, opinions of the company executives and managers included.

Events potentially exposing organizations to risks can occur in a wide variety of forms; indeed sometimes these events can also happen very suddenly and may require immediate action. Also creativity, helping reward managers to come up with brand new ideas and solutions, could therefore reveal to be a crucially important requirement for today's reward professionals.

As mentioned earlier in several occasions, to successfully perform their role, reward specialists should also constantly be informed about the developments and events occurring both in the endogenous and exogenous environment. All the political, legal, economic, social, technological and environmental issues, and correlated developments, have, hence, to be accurately analysed in order to identify the opportunities and threats which could impact the business reward system. Building a network of professional expertise in these fields can definitely reveal of fundamental importance. Establishing close relationships with internal and external employment lawyers, accountants and tax specialists will certainly turn to be useful in order to gather and compare different viewpoints and opinions on the likely effects and possible changes that the different events might produce in general and on the business reward system in particular.

This necessary ability to collect data needs also to be coupled with a similar ability to take appropriate action whenever necessary and within the most appropriate time frame. As suggested by the CIPD (2009), reward professionals need to be "driven to deliver."

Like all of the other managers, reward professionals should be equipped with a good dose of courage, necessary to challenge the current practices and ideas and to some degree useful to gain others respect and appreciation. After all, the main tenet underpinning reward professionals actions, especially when dealing with reward risks management, is helping the business attaining its intended objectives and strategy and being competitive and in well shape in order to fiercely compete in the market.

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Section V
Financial Reward

Components of financial reward

Regardless of the specific approach to reward management used within an organization, the components of financial reward usually offered by employers to their staff are in general similar and broadly grouped into two sub-components whose distinction is based on whether financial reward is offered irrespective of individual behaviour and performance or in dependence of both or one of these. The former type of financial reward is called fixed, whereas the latter is widely known as variable reward.

Indeed, it could also be identified a third macro-component of reward, namely a grouping formed by those payments provided by employers to individuals in order to maintain unaltered the level of their salary when determined events, such as sickness or injury occur, or when individuals enjoy their annual leave. In general, the sums received by staff in such circumstances are not actually intended to increase their levels of fixed salary, but rather to keep this unchanged and unaltered; that is why this grouping of allowances can be defined as preservation pay.

In general, managing a complex and sophisticated financial reward system, in addition to the other likely downsides, might reveal particularly problematic for the negative impact it can potentially produce at payroll management level. Complex financial reward systems in actual fact sensibly contribute to increase the number of line items which need to be handled and included in salary slips. Since the different items may possibly be subject to different types of taxation, this might in turn contribute to increase chances of generating mistakes in the payroll process. According to the different legislations in fact some types of payment could be subject to full taxation, whereas others might be subject to a reduced taxation or even be exempt.

The difficulty of managing a large number of fixed and variable components of financial reward is not limited to the correct application of fiscal regulations, but extends to the impact that these payments might have in terms of pension and superannuation calculations. This is clearly a job for payroll specialists, but in order to be able to design and develop sound and appropriate reward systems reward managers and specialists should definitely be aware of the impact of legislation on financial rewards. Keeping systems as far as possible simple is hence an approach likely to pay off in every circumstance.

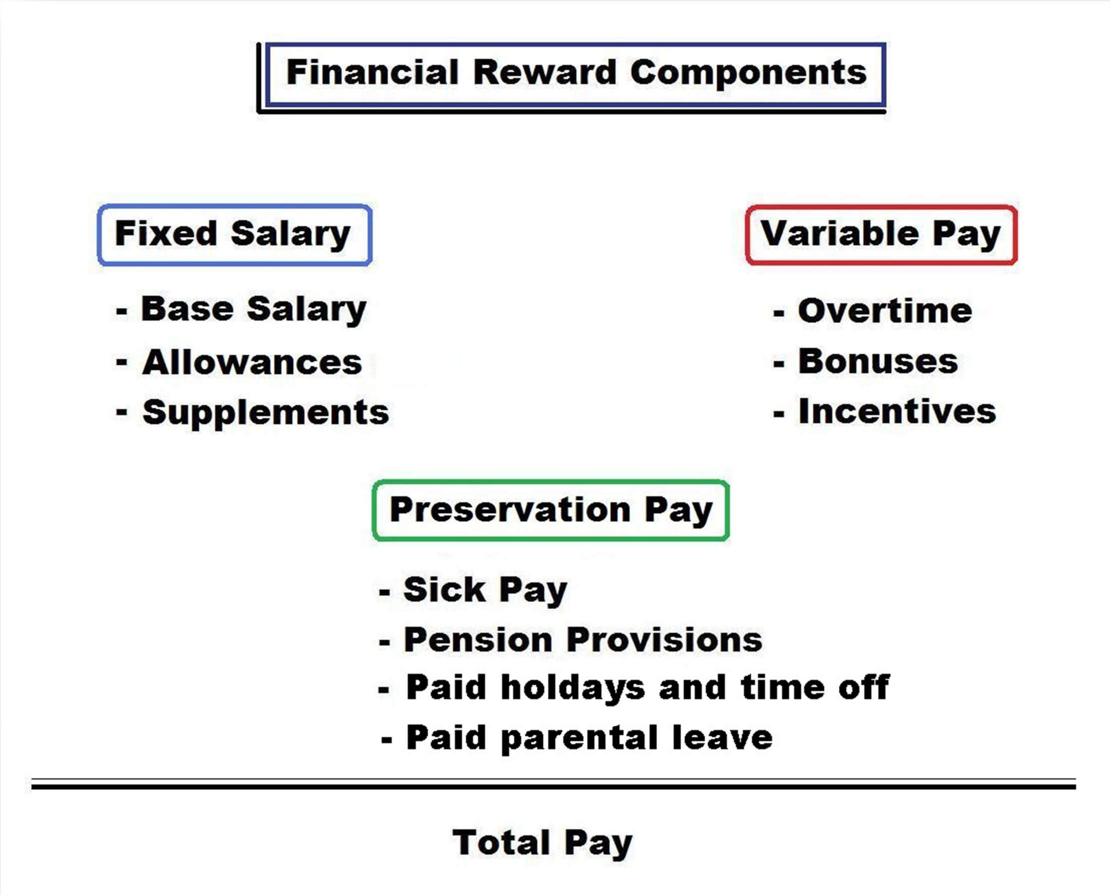

Table 22 - Total pay components

Fixed rewards

Fixed rewards represent the components of a financial reward package which individuals are entitled to receive regardless of their performance and indeed of that of their employer, working unit or team. Fixed salary is usually statutory-determined and associated with the grade assigned to each individual according to the salary structure used within the business.

The expression fixed salary can either refer to a single item of pay or to a number of components which could be included in the salary slip of the employee. All of these components have in common the characteristic of being received unaltered by employees over time, unless a pay increase, a promotion or a change of grade supervene. When pay systems are based on length of service, fixed salary increases also periodically occur at the frequency set by their mechanism. Such approach, however, originally intended to preserve employee purchasing power over time, tends to be the more and more abandoned by employers.

Fixed rewards are usually determined on the basis of the role each individual covers within an organization. To each role is associated a grade and to this a fixed or base pay. Additions to this pay can be individually agreed between employer and employee according to an individual capabilities, skills and level of expertise.

In some cases, the identification of fixed pay is underestimated by employers. This should actually be avoided in that some of the components of fixed reward, such as for instance basic salary, are normally used as the basis for the calculation of the possible additions and supplements which may be paid on top of base pay, both in a fixed and variable fashion, to staff.

Components of fixed reward

For centuries, fixed reward has been nearly exclusively represented by basic salary. In order to develop and design reward packages resulting the more and more attractive and appetizing to individuals and capable thus of enabling organizations to more easily attract and retain them, employers have over the years extended their financial reward offering adding to basic salary a wide range of financial additions and supplements.

Albeit money is considered as a hygiene factor and, in general, not as a good and effective motivator, employers, for some reasons which are not obviously based on their willingness to increase futilely their business fixed costs, have invariably paid particular care and attention to the financial aspect of reward.

Most of the allowances and supplements that employers have introduced in the financial side of their reward offering are provided to employees on a regular basis, therefore as additional components of fixed reward into which these are sometimes consolidated. This clearly entails that these allowances are granted by businesses to their employees with the precise intent to increase the value of their overall financial reward proposition. The circumstance employers prefer to grant additional allowances on top of basic salaries, keeping the former distinct from the latter, is actually linked to two main reasons. On the one hand employers want to clearly give evidence of the circumstance that each of the provisions they offer employees is linked to a specific and well identified motive, on the other hand basic salaries are usually associated with the grades of the reward systems developed within organizations; salaries which are actually also used as reference points for the calculation of the further supplements businesses might pay to their staff. Directly consolidating allowances into basic salaries as a matter of course might, according to the circumstances, be the cause for the base of calculation of the additional components of fixed, preservation and variable rewards to sensibly automatically increase.

Whether employers should opt to consolidate all of the provisions offered to their staff in the basic salaries of their pay structures, they would risk sensibly reducing the flexibility of their reward system and limiting their latitude to managing these effectually. Additions are in some occasions offered in the form of a specific amount of money regardless of the grade associated with individuals' salaries, but in most of the cases these are offered as a percentage of base pay, which is therefore considered as the calculation reference for the further payments. Consolidating fixed supplements directly into the basic pay corresponding to each grade, would not enable employers to manage these additions in the most appropriate way when eventually required by the changing circumstances. That is practically why allowances are kept separated from basic salary by many employers and showed by means of different line items in salary slips. Yet, although we are definitely looking at fixed components of reward, some of these allowances could be linked to the existence of specific circumstances and as such to specific terms and conditions of employment. Keeping separated these elements of pay from basic salary enables employers to eventually withdraw the payments accordingly whether the reasons justifying these should cease to exist.

In some circumstances and with specific reference to allowances which are offered as a fixed amount irrespective of the grade and of the basic salary an individual receives, employers may prefer opting for a definitive consolidation of these into basic salary. This is, for instance, the approach that some employers adopt in London as regards the payment of the London Weighting Allowance.

Reward managers and specialists when designing and developing reward systems within an organization should pay careful consideration to the number and types of fixed allowances and supplements they intend to include in their reward offering. The same care should also be taken with the mechanism of the calculation of these supplements: fixed amounts or a percentage of basic salary?

In general, in order to keep the reward system as simple as possible, reward specialists should seriously consider to consolidate into basic salary those allowances that, whatever the case, will be invariably taken into consideration as base of calculation for additional components of financial reward and which have to be permanently granted to individuals regardless of the future occurrences. By contrast, it would be advisable to keep separated from basic salaries all of those components of fixed pay which are not intended to influence the calculation of additional components of reward and might be subject to changes or withdrawal according to the future occurrences.

Once these or other elements affecting pay have been plainly determined by reward professionals, and hence by the HR Function, and approved by the business board, reward managers will need to interact with the organization employment law managers in order to the caveats or provisions concerning the way each pay component is treated and may be subject to be treated in the future and in which circumstances, to be included and clearly stated in the individual employment terms and conditions.

In unionized organizations changes affecting terms and conditions of pay of all the employees have to be usually discussed, bargained and agreed with trade unions officials. In these cases employers should be hence extremely cautions and restrain themselves from taking action unilaterally. Bargaining procedures with trade unions representatives are not clearly required whether agreements about pay would be individually negotiated and reached with some employees.

Determining how these additions have to fit in with the overall reward system mechanism, namely with job evaluation and eventually market pricing, represents a further challenge for people in charge of reward within the business. Unfortunately, it would not be minimizing the impact and importance of all of these aspects that reward specialists will be able to design and introduce sound and effective reward systems; these problems need hence to be appropriately and effectively tackled from the outset. The final aim being to identify the most suitable and consistent solution to determine fixed pay that is the right combination of basic salary and allowances and the way these have to be managed the one in combination with the others.

Basic salary

The seminal fixed component of financial reward is basic salary. The term basic is associated both with the circumstance that this component, although different from case to case, is common to all of the different reward packages received by every individual and to the fact that this element actually represents the base upon which every reward package relies (Management Study Guide, 2012).

Although the word salary has clear Latin origin, it is not completely certain its association with pay. According to some historians the term salary derives from the Latin word "sodium", coin, with which Roman soldiers were paid, but the most accredited theory is that the term salary refers to "salarium", salt, whose origin is associated with a specific allowance Roman soldiers received to buy salt (Oxford Dictionary, 2005).

One of the most important, arguably the most important, feature of basic salary is that its quantification is and, in order to avoid likely future problems, should have to invariably been agreed on a written contractual basis. Another distinctive characteristic of base pay is that it can eventually be increased, but by no means reduced. As suggested by Torrington et al (2008), basic salary essentially represents the minimum pay; which in some circumstances constitutes the overall financial reward package received by an employee, whereas in some other cases it forms the basis for the calculation, on a percentage basis, of the further supplements which may be added on top of this. Basic pay, for instance, usually represents a component of secondary importance of the overall typical financial reward package received by individuals filling sales positions, whereas for some other groupings, such as administrative staff, it might virtually represent the overall financial reward package received by employees.

Financial Reward

It is worth recalling that in the past years basic pay, although not negligible in value, represented a tiny percentage of the overall financial reward package received by financial industry executives, managers and bankers in general. Indeed, in some cases and countries, where not mitigated by the introduction of a specific legislation, this trend is still persisting.

Reportedly, in the early 2000s about 60 per cent of UK's employees received basic salary rates only, without any additional supplement or allowance (Grabham, 2003). Indeed, as seen above, in many instances this is also associated or typical of the different roles and industries. For example, vis-à-vis the overall salary they perceive, footwear industry operations staff, on average, receive just slightly more than 50 per cent of their salaries in the form of basic salary, whereas primary and secondary schoolteachers financial reward packages are practically nearly entirely formed by basic salary (Torrington et al, 2008).

Allowances and supplements

Allowances and supplements are those additional amounts of money which employers may pay to their staff for a whole variety of reasons. In general, these allowances are tendered to employees:

a) To compensate them for the particular circumstances and difficulties these have to face in order to perform their job,
b) To contribute additional cash enabling them to pay some benefits which employers cannot directly provide,
c) In recognition of their qualifications,
d) For the specific role they cover within the business.

High cost area allowance
Companies whose premises or offices are located within metropolitan areas are usually offering to their staff, as a fixed component of their salary, an allowance enabling them to curb the cost of living in or commuting to the city centre.

A "City Compensatory Allowance", fully taxable, is for instance offered to people working in high cost areas of India such as Delhi and Mumbai (Karvy, 2007). However, the seminal example of this kind of supplement is definitely represented by the London Weighting Allowance paid by employers to staff working in the Greater London Area. As claimed by the London Weighting Advisory Panel (Greater London Authority, 2002) the reasons for the payment of this allowance are basically represented by "cost compensation and worker retention." According to evidence gathered over the years by the Panel, the payment of the London Weighting is necessary in order to employers been able to attract and retain staff, insofar as the Panel members take as axiomatic the circumstance that the allowance needs to be paid and consider that the only question as regards the allowance is not "why?" to pay it, but rather "how much?" to pay.

The provision is indeed paid not only to individuals working in the hearth of the city, but also to those working in London intended in the more extensive idea and physical territory of Greater London Area. In general employers consider three areas: Inner London, Outer London and Fringe London and offer employees a different allowance accordingly.

Findings of a relatively recent survey carried out by the Incomes Data Service (IDS, 2011) over 166 organizations revealed that nearly 65 per cent of public sector organizations did not increase the allowance between 2011 and 2012, whereas those which did offered an increase between 0.5 per cent and 4.9 per cent. Even though the rate of private sector employers offering an increase of the allowance was slightly lower (60 per cent) than that recorded by the public sector organizations, the rate of increase offered by the former, ranging from 2 per cent to 8.9 per cent, appeared to be sensibly higher.

One of the most compelling reasons for companies offering employees a high cost area allowance is certainly represented by the particularly expensive cost of living in general and of housing in particular typical of the concerned areas. Research reveals that in April 2012 the average cost for a property across Wales and England was of £160,417, whereas during the same period in London the average price of a house reached £360,721, being hence approximately 2.2 times higher than that recorded in Wales and the rest of England (Labour Research Department, 2012). Similar differences also emerged as regards the price of rented houses.

Analysing and comparing salaries data it also emerged that the average male employee in London receives a financial reward package worth 32 per cent more than that received in the rest of the UK. Taking into consideration that in London are located the headquarters of many big corporations and financial institutions, which entails a high presence of well-paid senior managers and executives, the entity of such a difference can be considered self-explanatory.

Despite organizations usually offer high cost area allowances based on the distance between employees' homes and central London, some companies in order to attract and retain employees in their greater London area branches and headquarters have more recently developed different approaches:

- Some organizations have designed national salary structures including inner, outer and fringe London areas weighting;
- Some others have developed completely separate pay structures for individuals working in London, as for instance have done many schools and, in some cases, Civil Services;
- Some employers, such as retailers, have developed pay structures based on zones including London and the South East (Unison, 2012).

The Royal College of Nursing, in order to substitute the London weighting allowance, has adopted an approach based on paying supplements calculated as an additional percentage of basic salary, setting in any case a minimum and maximum amount payable to the individuals concerned (Royal College of Nursing, 2012).

High cost area supplements from 1 April 2012 – Royal College of Nursing			
Area	**% of basic salary**	**Minimum payment**	**Maximum payment**
Inner London	20	£4,036	£6,217
Outer London	15	£3,414	£4,351
Fringe London	5	£933	£1,616

Source: Royal College of Nursing

Findings of a research carried out by the Industrial Relations Service (IRS, 2012) revealed that 51 per cent of businesses pay a specific London allowance, whereas 44 per cent have developed specific salary scales or basic salaries for individuals working in London. The investigation also revealed that nearly 74 per cent of employers offer the London weighting allowance to staff contractually and without including any caveats concerning this provision in the individual employment terms and conditions. On the other hand the remainder 26 per cent of the businesses offering the allowance include in the contract limitations to the allowance payment depending on management discretion, entailing hence that employers could unilaterally review at any point in time the amount of the weighting agreed (Unison, 2012).

The entitlement to the allowance is usually lost when individuals working in a high cost area are transferred elsewhere. Northern Ireland Civil Servants permanently or temporary transferred to London, for instance, are entitled to the London weighting allowance, but in the event they should be transferred to a different area, although at a manager's request, they might maintain the allowance only on a mark-time basis. Whether the decision to be transferred from London to a different location would be taken on a Civil Servant voluntary decision, the payment of the London weighting allowance immediately ceases (Northern Ireland Civil Servants, 2012).

Employers can also make high cost area supplements pensionable; according to the IRS (2012) in the UK about 50 per cent of employers offering this allowance make it pensionable, the NHS is, for instance, one of them (NHS, 2012). Similarly, Northern Ireland Civil Servants' London weighting allowance is reckoned for superannuation (Northern Ireland Civil Servants, 2012).

Employers having offices in metropolitan districts, and more in general in high cost areas, not paying any specific allowance to staff working in these zones should seriously consider to introduce, especially in favour of the employees living in the metropolitan territory, an additional allowance vis-à-vis the rate offered at national level in order to enable individuals to better face the particularly higher cost of living characterizing these particular districts. Companies which are not willing to offer, or cannot introduce, a specific allowance in favour of individuals commuting from the outskirts of a high cost area or from neighbouring towns, might alternatively consider to offer to these individuals subsidised public transport season tickets. This is, for instance, a very common practice amongst business having offices and branches in Paris.

Workplace related allowances

In addition to high cost areas and still in the subject of payments of money supplements associated with the particular place where individuals usually work, employers might, where applicable, decide to offer to their employees other different types of allowances.

Zone allowance

This kind of addition is usually offered to individuals working in remote areas of a country and more in general in areas where some primary services and facilities, such as hospital and schools, are not promptly or not at all available.

Follow-the-job allowance

This supplement is offered by employers to their employees when these are constantly moving to different locations to perform their work. This addition is, for example, typically granted to individuals working in the construction and building sector (Workplace Info, 2012).

Living away from home allowance

Slightly different from the previous type of allowance, this addition is offered to individuals who, even though not continually moving from a place to another, are constantly working in a location distant from their homes.

Qualification and education allowances

Employers usually offer individuals working for their organizations additional fixed payments in relation to the education and vocational qualifications these have gained.

The impact of education and qualifications on pay is not just typical of high professional jobs or, more in general, of white collar professions. The NHS, for instance, in view of the change process it planned to implement within the organization and the following withdrawal of the national recruitment and retention premia (NRRP) maintained an allowance for "staff requiring full electrical, plumbing or mechanical crafts qualifications" (NHS, 2012).

Similarly the Institute of Groundsmanship, consistently with the aim of emphasizing the importance of education in the job descriptions related to the profession and to foster the importance of professional accreditation since the beginning of individuals' careers, offers an annual fixed addition to Junior Groundsman and Groundsman in possess of IOG qualifications and for the subsequent attainment of any relevant professional qualification (PBI, 2011).

In many cases, employees with specific qualifications which are consistent and might turn to be important within the workplace can be entitled to additional payments. For example, first-aid certificates and, in the case of the IOG, spraying certificates can be amongst them. Clearly, the first-aid allowance will be paid to an individual if and only if this will be appointed by the employer as a first-aid attendant; differently, the circumstance an individual has such a certification will not entitle her/him to receive the supplement (WorkplaceInfo, 2012).

Supervisory – Leading hand allowance

Employees carrying out supervisory and management roles are usually awarded a fixed addition directly linked to their responsibilities.

Money supplements are also usually granted to the most experienced employees within an organization, usually but not necessarily factories, who albeit not formally appointed as supervisors or foremen are in charge of other employees.

Meal allowance

Some businesses are able to provide employees with free or subsidized meals in the staff canteen located within the organization premises. However, not all of the employers can have recourse to this approach, so that many of them provide employees with luncheon vouchers which individuals can use to pay meals in restaurants facilities and amenities usually located in the business immediate surroundings. In order to avoid the cost associated with setting and running a corporate canteen and the administrative burden of managing luncheon vouchers, employers might alternatively opt to offer employees a meal allowance.

In general, this decision is also made according to the business size: the bigger the organization the larger the chances that this will opt for setting a workplace canteen. Once the decision of setting a staff canteen has eventually been taken, nonetheless, it also remains for employers to decide whether taking direct responsibility for running the facility or entrust this to an external catering company. In the latter case, employees usually pay a symbolic price for each dish they consume.

In some circumstances, mainly for fiscal-law-related reasons, employers might find it preferable offering employees luncheon vouchers vis-à-vis paying them a meal allowance. Moreover, by purchasing meal vouchers employers would benefit of a discount over the total amount they should have to pay vis-à-vis the vouchers' face value.

One of the most important elements employers should seriously consider when prompted to make this kind of decision is the local government fiscal approach towards this type of benefit. According to the circumstances both employers and employees could find it more convenient offering and receiving luncheon vouchers in lieu of a meal allowance in that the former could not be subject, at least not in full, to any tax, National Insurance (NICs) and social security contributions.

In the UK the law formerly regulating the fiscal treatment of luncheon vouchers was promulgated back in 1946. According to this regulation each meal voucher was tax and NICs exempt for the first 15 pence, whereas the exceeding amount was fully taxable and subject to NICs. The overall maximum exemption from contributions employees could benefit over a year was thus of approximately £36. The fiscal advantage provided for by this rule at the time it was introduced has clearly progressively shrunk over the years to the point that it can be considered practically inexistent in modern times. It is by reason of this circumstance that this regulation was repealed from 6 April 2013 (HM Revenue and Customs, 2012).

Considering the extremely limited practical impact of the former measure, its repealing was not expected to cause any remarkable impact on individuals and employers as well. Supposing in fact that meal vouchers were used by taxpayers on 260 working days over a year, the impact of the increase of tax and NICs on households was estimated between £12 and £20 a year. Whether on the one hand for employers the regulation withdrawal has certainly entailed an administrative burden relief on the other hand, still assuming that vouchers were used by employees on 260 days a year, its repealing is likely to have cost organizations £5 NICs a year for each vouchers beneficiary (HM Revenue and Customs, 2012).

The UK's case, which is similar to the German one where no benefits of this kind exist (Deloitte, 2011), cannot be taken as the best example of government's tax friendly policy as regards luncheon vouchers. However, in many other countries things work in a completely different way. In France and Belgium, for instance, meal vouchers are fully exempt from income tax and social security contributions, but employees usually make a contribution according to the total face value of the luncheon vouchers they receive. In other countries like Italy and Austria meal vouchers are tax exempt whether their daily denomination does not respectively exceeds €5.29 and €1.10. In Austria, in those cases in which: employees cannot come back home in order to eat their meals, luncheon vouchers are used on weekdays and in restaurants close to the businesses offering them the daily tax free vouchers denomination rises to €4.39. In Portugal luncheon vouchers are neither subject to social security contributions nor to income tax provided that these do not exceed a maximum amount, which is annually identified and made known by the Portuguese government. In Spain luncheon vouchers are exempt from social security contributions and tax, whereas meal cheques tax exemption is capped at €9.00 per day (IusLaboris, 2010). In Ireland the government adopts a tax policy very similar to that previously existing in the UK. Luncheon vouchers are in fact tax exempt up to 19c per voucher, whereas the exceeding amount of each voucher is considered as pay and consequently taxed accordingly (The Office of the Revenue Commissioners, 2012).

Rules are slightly different in India where meal vouchers are tax exempt up to the amount of Rs. 50 per meal, but no restriction applies as regards the number of meals an employee can consume on a single working day. It is therefore considered reasonable that an employee could consume two meals on a working day, either for breakfast, lunch or dinner, benefitting of a tax exemption of 50 rupees for meal voucher. Strictly speaking, in order to avoid possible problems, employers should offer their staff vouchers whose face value does not exceed the tax exempt maximum amount of 50 rupees.

In India, for luncheon vouchers to be considered tax exempt these have to be exclusively used during working hours and hence working days. All in all, the total monthly tax exemption an employee can benefit of is Rs. 2,200, that is, 5 (weekdays) x2 (meals) x22 (working days), provided that no additional holidays are falling into a month. Some employers use to offer their staff vouchers for a monthly total denomination of 3,000 rupees, but they should be aware that in such cases employees are legally subject to taxation over the exceeding 800 rupees monthly meal vouchers they receive.

Generally, but with some exceptions indeed, the same fiscal rules applying to luncheon vouchers also apply to meals canteen. In some circumstances, however, some restrictions might apply. In Ireland, for instance, favourable fiscal measures are only applicable if subsidized or free meals are offered in canteen open to all the employees (Revenue Ireland, 2012).

Shifts, Unsocial Hours and around the clock allowances

Competition amongst businesses is becoming increasingly harsh, employers hence constantly need to come up with new sound solutions to increase their staff productivity and offer their clientele top quality products and services. In the bid to deliver better services, many employers tend to make accessible their business 365 days a year and 24 hours a day, holidays and weekends included. Albeit this strategy can be considered as an option for employers of some industries, such an approach has been adopted as the only available option by employers of other industries such as hospitals, insurance companies, call-centres and large-scale retailers.

Employees working in such environments receive as a matter of course a whole range of fixed supplements which might be linked to unsocial hours working patterns, roster patterns, on-call availability and other extended service cover-associated patterns of work. Fixed supplements are also usually paid to individuals working on night shifts or weekends only.

Other allowances

Employers pay to their staff additional allowances and supplements for a wide range of additional reasons, mostly associated with the circumstance that performing the work activities is objectively disagreeable or dangerous for employees.

The Western Australian Industrial Relations Commission (WAIRC, 2012), for instance, provided for some Government Officers, namely laboratory technicians and their assistants involved in mortuary duties linked to coronial inquiries, to receive a mortuary allowance.

Bank cashiers, individuals working in the accountancy departments and, more in general, people in charge of handling cash within an organization are usually entitled to a cash handling allowance.

A tool allowance is provided to those people and sometimes to apprentices as well who, for executing their work, need to carry a set of specific tools whose transportation is particularly problematic both for dimension and weight (WorkplaceInfo, 2012).

Some specific allowances are also usually granted to employees who are exposed to risks as a matter of course when executing their duties. In these cases and according to the circumstances, employers might prefer paying higher rates of fixed salary into which these allowances are actually consolidated.

Pension provisions

Even though employees tend to take this form of payment as axiomatic, it needs to be stressed the importance that pension provisions are regularly paid by employers as a component of fixed pay.

Pension provisions are acquiring a growing importance within financial reward packages by reason of the legal and fiscal developments which are in general affecting many countries across the globe. Reward professionals need, hence, to be particularly focused on this aspect and need to constantly keep updated on the current and possible future trends in order to timely come up with sound and appropriate solutions. This subject will be more thoroughly discussed in section XVI.

Preservation pay

As anticipated above, there are some components of pay which can be practically considered somewhat of in between fixed and variable pay. The reference is more in particular to those types of pay which employees receive as a fixed component of salary when determined circumstances, which are neither related to employee nor employer performance, occur.

Fixed pay is as often as not perceived by employees, according to their views of the psychological contract, as somewhat of a safe haven or a threshold below which their salary cannot step down. Conversely, variable pay is seen by individuals as a chance, an opportunity to receive extra money vis-à-vis the regular and usual amount of money they are expected to receive. Elements of preservation pay are neither part of fixed salary nor can these components be deemed as real additions to this. Preservation pay does not actually accrue the usual level of fixed pay received by an individual, but rather aims at keeping it unaltered, hence the term preservation.

The use of the term "maintenance" could have been used too to refer to this specific form of pay, but its use would have risked creating confusion with the concept and idea of maintenance, as a hygiene feature, associated with cash and financial reward in general by Herzberg.

Illness, injury and annual holidays pay

The typical cases of preservation pay are actually represented by the illness, injury and annual holidays allowances which are paid by employers to staff when these are absent from work for illness, injury and holidays-related reasons. In these cases individuals' pay should be reduced according to the length of their absence, it is sorely thanks to the payment of the respective allowances that employees maintain their level of pay unaltered. Employees in fact more often than not pay staff absent for illness and injury or enjoying annual holidays exactly the same level of basic pay they would have received whether they should have regularly performed their job.

Some countries or collective agreements may provide for more favourable specific rules to apply for the calculation of sickness and annual holidays' payments, but in general statutory rules always consider these payments based on the regular hourly pay calculated on the amount of base pay.

Illness, injury and annual holidays pay are not the only examples of preservation pay, can in fact considered part of this grouping parental leave, paid time-off and all of the paid absence opportunities offered by the employment terms and conditions.

Variable reward

Differently from fixed and preservation pay, variable rewards cannot be taken for granted by employees in that, in general, these represent the part of the salary to which individuals are normally neither contractually nor permanently entitled. As it is commonly said, variable reward needs hence to be re-earned; additionally employees cannot be expected to receive it every month. Differently from fixed pay and with some exceptions, the various existing forms of variable pay are in fact hardly received by individuals on a monthly basis, but are rather more frequently received on an annual basis. Yet, the circumstance that an amount of money in the form of variable pay earned on a given year will not necessarily be repeated on the following ones accounts for this type of pay being also dubbed "pay at risk."

Individual entitlement to receive variable financial rewards can be associated and determined on the basis of three different main indicators:

- ✓ The performance and results achieved by the organization,
- ✓ The outcome produced by the team or unit to which the employee contributes,
- ✓ The performance and results directly achieved by the individual him/herself.

These different ways to link the payment of additional rewards to each individual enable employers to influence employee performance not only individually but also as members of a team. The final aim is hence that to encourage individual contribution to the success of the unit they work with and ultimately facilitate the attainment of the business aim and objectives (Management Study Guide, 2012).

Components of variable reward

The components of variable pay can be grouped in two main categories, in one group can be included all of those elements of variable pay which can be considered work-related, whereas in the other grouping can be included all of those elements which are mostly linked to outcome and performance, regardless of the circumstance that these are associated with individual, unit or organizational results.

Can be defined as work-related components of variable reward the additions which employers pay to employees for the extra activities they perform. The reference is to the quantitative rather than to the qualitative aspect of a person's activity. Being genuinely and exclusively correlated to the quantitative aspect of the work, these additions are paid by employers in proportion to the real additional quantity of work undertaken by the individual concerned, irrespective of the results this has produced during the relevant period of time.

Another sub-category of work-related variable rewards is represented by the extra cash employers pay to their staff for the occasional working activity these carry out at unsocial hours, holidays and night. Also in these cases, the fact that the working activities are performed only occasionally and under specific circumstances accounts for individual entitlement to the additional payment depending on the real quantity of time worked under these specific conditions.

Table 23 – Components of variable reward

Such variable supplements could also be offered by organizations to individuals working according to extended service cover-associated patterns of work, in addition to a fixed allowance already granted for the same reason. In practice, employers could opt to offer employees a combination of a fixed allowance associated with the fact that these undertake their work in disagreeable circumstances and a supplement whose amount will be commensurate with the effective duration of the working activity under the unusual circumstances. In this case, employers might decide to grant individuals more modest fixed allowances since these will be increased by the variable supplements offered on top of these.

Usually, these types of additions are paid at a higher rate than the standard hourly rate; their amount is in fact typically determined by adding to the base hourly rate a pre-set percentage of this.

The other grouping, differently from the work-related grouping where payments are made according to quantitative measurements, includes the forms of financial reward that employers offer employees for the outcome or level of performance they produce individually, as components of a team or for the results achieved by the business.

Work-related variable rewards

Overtime

The term overtime is used to indicate the compensation paid by employers to employees for the additional time these work, with reference to a given spell, beyond the statutory or contractually agreed working time. The working time which needs to be taken as a reference might vary according to the circumstances: in some cases it could be identified with the daily working hours, whereas in some other cases with the weekly working hours, that is, the total number of hours that have to be worked by an employee during the entire week as stated in the written contract of employment. In the former case the supplement is paid on the basis of the additional time worked by a person separately in each single day, regardless of the total number of hours which this has worked during the whole week. In the latter case overtime will be paid for the extra time eventually worked by an individual during the entire week, in excess of the total number of weekly hours. The difference between the first and the second case is that in the second case it might occur that an employee could work more hours in one or more day of the week compensating this extra time working fewer hours in other days of the same week. In this circumstance, the individual will not be entitled to receive any additional sum of money for overtime.

In some cases, especially when employers might have varying needs during the different months of the year, as it could be the case of seasonal activities, such a type of balance could be operated and achieved over a longer period of time. Employers having a given number of FTEs on a permanent contract basis might in fact find it more financially sound and savvy enabling individuals to work more hours during determined periods of the year and let them to compensate these during other less work-intense periods of the year. In the end, the total number of hours worked by every employee concerned over each year should clearly result unchanged and unaltered. For this working pattern being welcomed or, if anything, fully accepted by staff and eventually by Unions and Works Councils, employee salary has to be maintained unchanged along the overall considered term. This will ensure employees to have a stable income throughout the year. Usually, such an approach is used over a length of time not exceeding 3/4 consecutive months. It basically enables employers to better face workloads during predictable peak periods, avoiding to pay overtime, and to manage in a more productive and efficient way their human capital throughout each financial year.

Although overtime represents a supplement employees receive in the form of variable pay, the sums received to this extent are essentially linked to the normal activity carried out by individuals and are basically and genuinely associated with the quantitative side of their job. People work more than contractually agreed and they are, by extension, compensated accordingly.

Night shifts, weekends, holidays and unsocial hours additions

Whenever employees are called to work during unsocial hours, weekends and holidays not on a regular basis but in a completely occasional fashion, individuals are entitled to the payment of cash additions directly linked to the number of hours actually worked. These supplements are usually calculated applying a predetermined additional percentage of the base hourly rate of pay received by each individual.

Performance-related variable rewards

Bonuses and incentives

Performance related pay and more in general variable pay, are usually paid by employers to staff in the form of bonuses and financial incentives. Indeed, there is not a widespread agreement about the exact definition and aim associated with the ideas of bonus and incentive.

According to the CIPD (2012), incentives are mostly aimed at encouraging future performance, whereas bonuses are more in particular aimed at rewarding the attainment of specific outcomes and results already achieved by individuals, hence past performance.

Similarly, the ACAS (2006) associates the payment of bonuses with individual performance and objectives attainment, whilst incentives would be paid by employers to employees in order to favour the development and improvement of the standard of quality of the services and products offered by an organization, including customer service. It can thus be concluded that for the ACAS too incentives should more directly be associated with future performance and outcomes.

In contrast, Torrington et al (2008) define as incentives the cash supplements which individuals receive for their performance on the basis of specific agreements they reach with employers, whereas bonuses as "gratuitous payments" whose determination does not directly depend on individuals performance and outcomes such as, for instance, Christmas bonuses. The main feature of incentives will hence be associated with individuals awareness about what employers are expected from them or, to put it another way, with the knowledge of what they have to do in order to be receive this form of variable pay. The payment of these additions is therefore strictly associated with and consequent to the attainment of a predetermined objective or outcome. The amount of bonuses, in contrast, whose payment is not linked to individual performance, would escape out of employees control as for their determination (Torrington et al, 2008).

Financial Reward

Armstrong (2010) defines bonuses as payments of cash that employers offer to their staff for organization, unit or individual goals achievement. The Author also adds that bonuses practically enable businesses to reward individuals for the attainment of exceptional objectives and to provide recognition to those who, although being at the top of the salary range of the relevant grade, continue to perform well. It clearly seems that the supported idea is that these supplements are actually linked to achievements, rather than to future performance. Incentives are rather basically meant to encourage individuals to go the extra mile and induce discretionary behaviour, "do this and we will make it worth your while", a method to some extent based on the stick and carrot approach. Furthermore, incentives not necessarily have to be associated with cash, also non-financial recognition as promotion or challenging assignments have to be indeed considered as forms of incentives (Armstrong, 2010).

In practice the two terms bonus and incentive are very often used as substitute the one of the other. It could be said that incentives represent the pre-phase of the payment of bonuses or other forms of financial supplements and additions, or rather, the explication of the rules and the determination of the objectives which need to be attained by a person in order to receive a determined amount of extra cash in the form of a bonus.

The terms bonus and incentive do not indeed refer to the achievement of well-defined and universally identified objectives; neither can the payment of these supplements be associated with specific reasons valid for all the employers. Bonuses can be paid to individuals for a whole range of reasons, in any case essentially associated with the attainment of positive results or outstanding performance; incentives can be agreed with individuals in order to encourage them to attain a wide range of different objectives. The latter represent the means to an end, whereas the former the end itself.

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Section VI
Non-financial Reward

Meaning and composition of non-financial reward

Employers have realized and learned over the years that reward systems exclusively based and relying on financial rewards were no longer effective and that in order to attract and retain quality staff they had to extend the contents of their value proposition. This can be basically considered as the most compelling argument forming the basis for the total reward idea development.

The circumstance that individuals are different one another and that each person wants tend to change with the passing of time, insofar as neither a rule of thumb could be identified in order to exactly determine individual preferences except than directly asking them, has possibly contributed to the development of the current dominant trend according to which non-financial rewards have acquired a growing significance, especially over the last decades, within firms' overall reward systems.

Non-financial rewards are in general associated with all of the benefits an individual or a group of individuals working within an organization receive in every form but money. It is, therefore, widely acknowledged that many forms of reward have to be considered as non-financial rewards albeit being tangible, directly or indirectly associable with money and despite their financial appreciation and worthiness can be rather objectively evaluated. Idea which will be later challenged.

Differently from financial rewards, one of the main and characterizing features of non-financial rewards is that these are essentially intangible. More in particular the term intangible refers to the circumstance that non-financial rewards are expressed by something which can neither be shown nor touched and with which, it can be added, cannot be associated a specific and objective financial value.

Some non-financial rewards, such as for example learning and training programmes, could also be actually the object of an indirect financial appreciation, as for instance the programme enrolment fees and the attendance costs. However, this financial appreciation does not necessarily coincide with nor is representative of the perception that each individual might have of the same programme. Some individuals might attribute to a training programme a high value, whereas others might not even consider this worth the money the employer needs to pay in order to offer it to the employees. Notwithstanding, since training and learning opportunities are provided by employers to employees in direct correlation with their working activities, for instance: to enable them to improve their performance, to give individuals more responsibility and more challenging assignments, to help individuals feel more confident and able to work autonomously; regardless of the financial value associated with these opportunities, these are anyhow ultimately aiming to improve and make it better for employees the working experience and can hence be attributed to the job itself.

On the other hand associating a precise financial value with a non-financial reward deriving from the job itself such as feedback, praise, involvement, autonomy and participation becomes clearly much trickier and even virtually impossible.

An additional important distinguishing feature of non-financial rewards, vis-à-vis financial rewards, is that the former can either be intrinsic or extrinsic whereas the latter can only be extrinsic. Are intended as extrinsic those kinds of rewards which can be considered external, or rather, not directly associated with or deriving from the activities and the job carried out by a person. Financial rewards are clearly paid by employers to individuals for the work they perform, but the financial rewards employees receive for their work are neither directly deriving from nor are expression of the activities they carry out. As such, money is considered as a form of reward external and detached from the activities performed by a person, hence extrinsic. These kinds of rewards are likely to provide individuals with a sense of stability. Receiving a salary from their employers certainly contributes to provide individuals a certain degree of serenity and confidence as for what concerns both their professional and personal situations.

Conversely, non-financial rewards like job enrichment, feedback, job design, empowerment and job involvement and participation are clearly strictly related and deriving from the job itself. In these circumstances people feel awarded just when they are performing their activities. It is hence the concomitant feeling of achievement and fulfilment they perceive during their working activities which they feel and consider as rewarding. Money is clearly provided to employees for their work but at a different time. Yet, it does not necessarily provide individuals with the same feeling of fulfilment as intrinsic rewards do.

Some types of non-financial rewards can also be considered extrinsic, that is not directly deriving from a pleasant and compelling working experience, but as a direct consequence of this. As suggested by Armstrong (2010), some kinds of non-financial rewards such as praise, feedback and recognition can be considered as individual extrinsic rewards and some others, such us work-life balance and learning and development, as collective extrinsic rewards.

To properly assess in which grouping a given form of non-financial reward should be included, what needs to be taken into consideration is the active phase of the job, hence the performing phase, not all of the activities and initiatives which can relate to the job itself. Work-life balance policies, for instance, are clearly enabling individuals to go to work and perform in a better mood, but these not provide a sense of fulfilment or contentment during the action of performing a job. A person could be in the right mood, but still feeling the job carried out boring and the activities performed pointless and not significant for the attainment of organizational success.

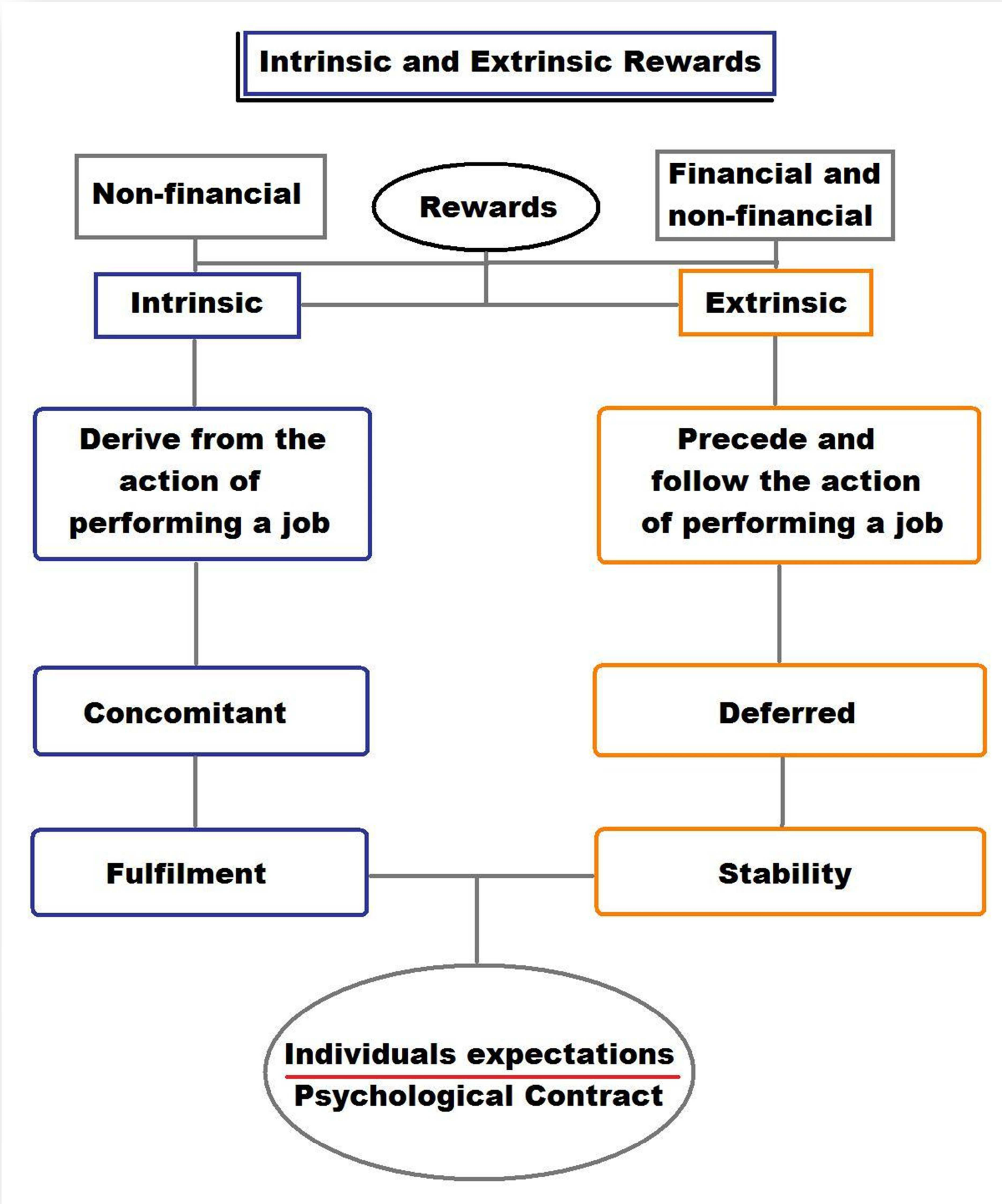

Table 24 – Intrinsic and extrinsic rewards

Non-Financial Reward

Both financial and non-financial rewards therefore are aimed at attaining a specific objective. Most importantly, the combination of these different forms of rewards contributes to employees developing the feeling that their employer has respected and honoured the terms and conditions of the unwritten psychological contract.

Intrinsic non-financial rewards

Intrinsic non-financial rewards are those kinds of rewards which employees directly derive from the working experience and more specifically from the activities they perform. In practice, individuals find the duties and tasks they carry out so compelling and the results they obtain so appreciable insofar as they feel and perceive the action of performing their job as gratifying and satisfying of its own and contributing to boost their self-esteem. In order to a type of reward being considered intrinsic, the sense of fulfilment and the action of performing a job should hence be simultaneous. However, this does not really entail that the sense of accomplishment vanishes soon after the action of performing the job is concluded; on the contrary, this effect typically enables employees to approach with more enthusiasm and commitment the activities these will perform in the future too.

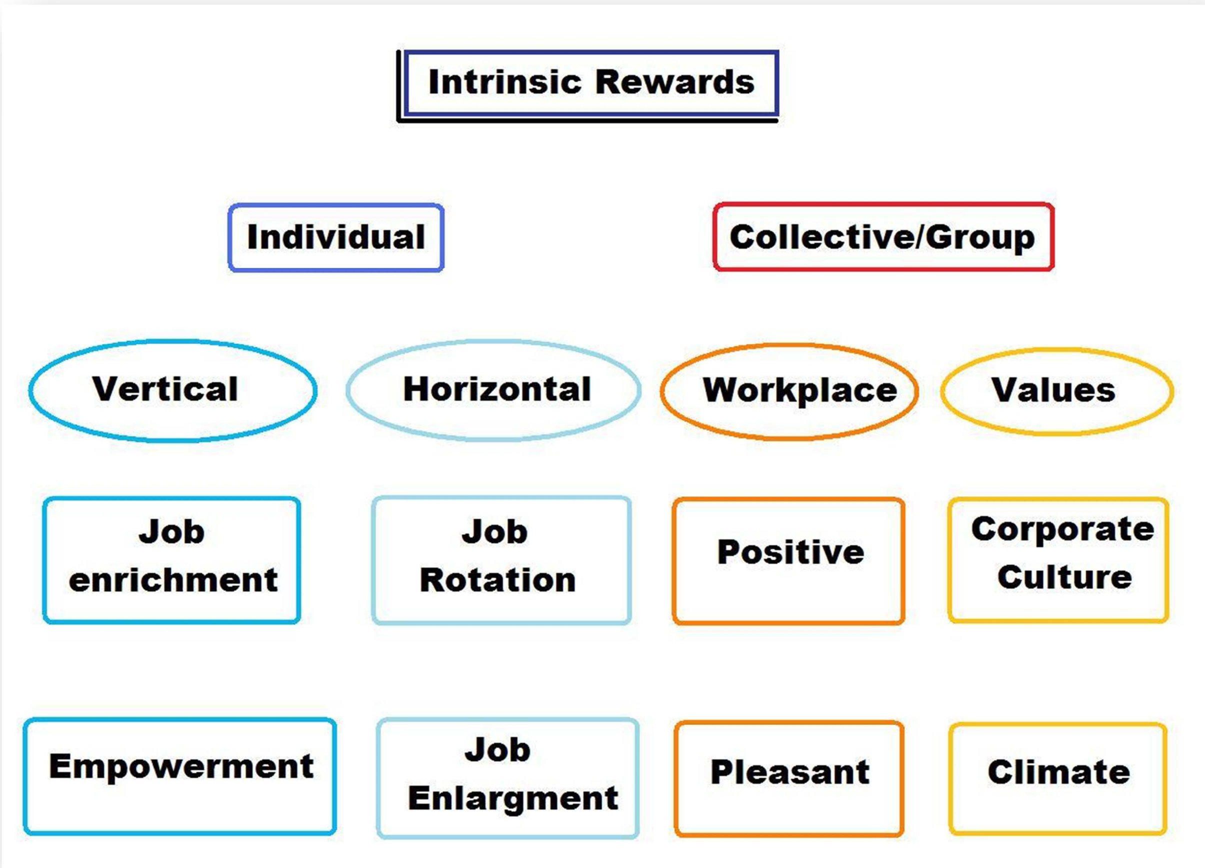

Table 25 – Intrinsic rewards

Non-Financial Reward

There are indeed a number of ways by means of which employers can provide their staff intrinsic rewards. Yet, these can be contributed to employees individually or as part of a group.

Unsurprisingly, individual intrinsic rewards have a lot to do both with the way individuals practically perform their tasks and with the degree of autonomy and latitude entrusted to these in order to perform their duties. Differently, group or collective intrinsic rewards are mostly associated with the working environment and the main features and conditions typifying this, namely organizational values, corporate culture and climate.

Individual intrinsic rewards

Taking as axiomatic that all of the initiatives implemented by employers to provide individuals with intrinsic rewards are ultimately aiming to yield individual opportunities for development and growth, it can also be made a distinction between the different ways these opportunities can be provided in practice. The initiatives introduced by an employer in fact can sometimes imply individual increasing degree of responsibility, autonomy and job difficulty - vertical growth -, or can provide individuals opportunities to execute a variety of tasks which do not imply neither an increased level of responsibility nor a higher degree of autonomy – horizontal growth - (Porter et al, 2006).

In general, as maintained by Herzberg (1968), all of the initiatives taken by employers to favour individual growth can be included in the wider idea of job enrichment. Within this concept, however, different practical approaches aiming at enacting individual both vertical and horizontal growth can clearly be identified.

Horizontal Growth

Job Rotation

This initiative consists in planning the transfer of an individual from a role to another by means of rotation (Porter et al, 2006). In this way individuals will perform different tasks and duties which, offering them the opportunity to execute a more varied range of activities will reduce the monotony and the repetitiveness of the actions they usually perform when carrying out their main job (Armstrong, 2009). In this case, variety is not coupled with increased autonomy and responsibility. Individuals will therefore experience no changes, or rather, improvements in terms of required supervision, job difficulty and degree of latitude when performing their work (Porter et al, 2006).

Job Enlargement

This approach practically entails the increased number of tasks and activities performed by an individual whilst still continuing to fill his/her role. In general, this objective is achieved by extending and giving an employee the wider control of an overall process or activity previously fragmented and performed by more employees. Customer care agents could be held up as a good example of this; whether these are, for instance, just in charge of the phase of mechanically processing orders, giving them the additional tasks to call customers, sales agents and warehouse staff for any order-related reasons will certainly represent a case of increasing the number and variety of their activities by means of job enlargement. Agents will gain a broader view and control of the process and definitely increase the number of tasks they have to perform, which will contribute in turn to let them perceive their working experience as more significant and pleasant, but without any extension of responsibility and job complexity.

The only downside usually associated with this type of initiatives is that after a period of time the job could be still considered repetitive: "Instead of having one boring job to do, I've now got seven boring jobs to do" (Porter et al, 2006). This remark is more specifically referring to the lack of vertical growth, typical of job enlargement approaches. In order to avert falling into this typical pitfall and constantly ensure employees a variety of tasks, managers should periodically try to come up with new ideas aiming to provide diversity to the duties and activities performed by their direct reports, preferably involving these in this process.

By giving individuals a broader view of the process in which their activities fall, notwithstanding, job enlargement can enable employees to gain a better understanding of the significance and contribution of the work they perform and can thus provide them a certain sense of fulfilment. Furthermore, performing several tasks and activities related to the overall process, can also enable individuals to practically better and more extensively use their abilities and hopefully gain and develop new ones (Armstrong, 2010).

Vertical growth

Job Enrichment

Intended as a means of providing individuals with an increased degree of autonomy and responsibility, job enrichment approaches need to be based on a few mandatory prerequisites and tenets which can be derived from the job enrichment model developed by Hackman and Oldham (1980):

a) *Ensure individuals gain a higher degree of autonomy*

This objective is attained letting individuals perform under decreased levels of supervision.

b) *Ensure tasks are clearly identifiable*

Entrust employees complete and thorough processes which hopefully have a clear beginning and end. This will enable individuals to gain both a thorough and in-depth knowledge and a better understanding of their tasks.

c) *Make sure individuals can identify the significance of their tasks*

In order to individuals clearly understand the value of their contribution and assess the worthiness of the results they produce, these should have clear ideas about the way their work fits with the organization activity and about the contribution it practically brings to the business objectives attainment.

d) *Ascertain that the jobs require skills variety*

Jobs performed by individuals should enact them at worst to put in practice their skills and experience and at best to broaden their technical knowledge and gain new skills.

e) *Ensure that employees receive clear feedback*
Objectives should be determined by individuals and agreed with their direct managers so that employees can assess the value of their contribution by themselves from the outcomes they have produced.

It could be finally summarized that job enrichment should make individuals feeling that they are at the same time contributing, learning and enjoying themselves when performing their working activities (Markovich, 1997).

Empowerment
Empowerment can be considered to some degree as a form of intrinsic reward which goes a step further vis-à-vis job enrichment, its distinctive feature being that, in this case, managers delegate employees some decision-making. In order to managers devolving part of their power and responsibility, however, they need to be sure that individuals have the necessary qualities and skills, and eventually make the necessary arrangements for these individuals receiving the required training, to properly and effectively exercise the delegated power (Armstrong, 2010).

This form of intrinsic reward clearly represents a strong form of employee involvement; albeit for its practical application one of the most important barriers employers have to break down is the likely manager resistance to renounce to part of their power (Porter et al, 2006).

There is indeed another important aspect which employers and managers should carefully consider before deciding on the most fitting approach to employee empowerment these have to embrace, namely the employment law aspect. According to legislations, delegating power to an employee beyond a certain period of time could account for the employee legally being entitled to receive a higher grade within the organizational grade structure. Empowerment initiatives need to be, by extension, carefully planned in the light of the relevant legal provisions

Group or collective intrinsic rewards
Positive and pleasant working context
This form of intrinsic reward has much to do with one of the components of total rewards having the same denomination and referring to the intrinsic-relational side of the model. It is basically associated with all of the aspects contributing to make individuals feeling at their ease within the organizational premises in general and when performing their duties in particular. As discussed in Section II, are included amongst the elements of this component the working experience and the leadership style used by managers within the business. All of these aspects critically contribute to let feel employees comfortable when performing their activities and, as suggested by Armstrong (2010), to also feel and perceive a sense of well-being.

Organizational values, culture and climate
Workplace climate is typically mostly influenced by the business values and hence by the corporate culture developed within an organization. As such, what matters the most to

this extent is how values and culture are perceived by individuals; organizational climate is therefore the aspect on which employers should focus the most and take particular care with. More specifically, employers should do their utmost to ensure that individuals within their business feel the environment as positive and to some extent welcoming and pleasant. After all, employees spend most of their time within a business than outside it. Yet, it should not be neglected that since these activities are directed at all of a firm's employees, the efforts and energies it might require taking care with this particular aspect are likely to be well-worth.

Extrinsic non-financial rewards

Extrinsic non-financial rewards are represented by those types of programmes, initiatives and actions introduced by employers and implemented by managers in order to openly and sometimes publicly praise employees. The main characteristic of this kind of rewards is that they are intangible and that are not deriving by the act of performing a job, even though clearly associated with this activity. As such, non-financial rewards are mostly, but not necessarily exclusively, received by individuals before or after the action of performing a job and producing results. Since these rewards are concerned with the positive signals given to employees by the employer, directly or by means of its representatives, that is, the business managers, these also typically provide individuals a sense of stability and contribute to reinforce their loyalty to the organization and their sense of belonging.

Quantitatively speaking, this category of rewards boasts a large number of forms and ways by means of which these can be provided. Also in this case two different groupings of rewards can be identified, namely: individual and collective non-financial rewards.

Individual extrinsic non-financial rewards

Differently from intrinsic rewards, where individuals derive fulfilment and satisfaction from the act of performing, in this case rewards derive from something organizations' managers do or say in order to commend or acknowledge the valuable outcomes produced or the positive actions performed by an employee.

The appreciation expressed by employers by means of extrinsic non-financial rewards is in general considered much more "memorable" than an award in cash which is likely to be very quickly forgotten by an employee (Silverman, 2004).

Individual extrinsic non-financial rewards can practically be offered in a wide variety of forms, from a managers saying "thank you" to publicly show appreciation for an employee commitment and results at a special official event or dinner. In between these two kinds of initiatives can be included several others forms of extrinsic non-financial rewards such as proclaiming the employee of the week, month or year, or other forms of "public applause" such as show appreciation for the employee in the business newsletter or during a team or unit meeting (Silverman, 2004). As contended by Armstrong (2010), however, since some of these forms of appreciation and praise give to some individuals a certain degree of visibility within the organization, which some others could perceive as detrimental for themselves, in order to avoid likely drawbacks, employers should take particular care with managing these initiatives. Whether not appropriately handled in fact such forms of rewards can potentially generate negative feeling and dissatisfaction amongst the non-appraised employees and cause the harmful sensation that within the business, a single unit or team there are acclaimed successful winners but also neglected failing losers.

Other less visible but similarly effective forms of extrinsic non-financial rewards are, for instance, represented by the direct manager or a senior manager within the business writing to a person to thank him/her personally.

Employers can obviously decide to adopt as many initiatives as they want. Whatever the number and the types of initiatives identified and deemed suitable to support the organizational culture, aims and objectives, however, employers should invariably start from organizing this type of rewards on a scale. This will enable managers to offer employees the different rewards according to the degree of importance they associate with the different achievements or actions they intend to award. The extent of visibility and formality of the reward offered to an employee will clearly increase proportionally to the value attributed by managers to the results produced by this (Silverman, 2004).

Regardless of any official scheme or programme eventually implemented by the employer, to ensure that employees who have performed well are recognized and praised in some ways, thanking these for their contribution, performance and the valuable suggestions these have eventually provided should anyhow be considered by managers as something they have to care about and do as a matter of course.

Group or collective extrinsic non-financial rewards

Are included in this grouping all the types of rewards which are simultaneously offered or made available to the entire workforce. These are indeed different in scope from the individual extrinsic non-financial rewards in that by means of these employers are not aiming at praising or thanking an employee in relation to a particular act or contribution. These types of rewards are in fact primarily intended to create a sustainable workplace and increase the quality of the working experience providing employees with a stronger sense of stability and, as such, the feeling that the employer is actually honouring the psychological contract.

Since the main feature of this group of rewards is that of being accessible and available to everybody within the organization, these are mainly offered to employees in the form of policies, programmes and procedures (Armstrong, 2010).

Can be definitely included in this category of rewards voluntary benefit schemes, which can in many ways be considered as the seminal form of collective extrinsic non-financial rewards. These schemes enable employees to buy goods or services, utilities included, at favourable prices which have previously been agreed by the employer directly with the goods manufacturers or dealers and the services providers. Voluntary benefit schemes are also very often associated with the concept of salary sacrifice in that employees, in order to buy the goods or services to which they can have favourable access by means of these programmes, have to use their own money, which is usually deducted from their pay and recorded in their salary slip. These schemes are essentially operated by employers the same way as some types of cooperatives or collective buying communities are. It is basically on account of the large number of items of the same goods which a business can ensure the producer or dealer to sell, that employees can benefit of very competitive prices.

One of the most effective, arguably the most effective, and most widely used initiative employers introduce and implement within their businesses is definitely represented by flexible working hours patterns. This kind of policy is particularly welcomed and appreciated by employees in that enable them to better manage their work-life balance. These practices were formerly recognized as family-friendly policies; indeed, even though it is unquestionable that caring individuals and working parents definitely receive and perceive the most evident benefits from such policies, without a doubt also single individuals do appreciate and receive priceless benefits from them. That is basically why, more recently, it is referred to these policies as enabling a better work-life balance rather than a better work-family balance.

An additional initiative employers can have recourse to in order to make feel individuals more relaxed and less concerned about their personal daily life duties and commitments, beyond contributing to enhance the quality of employee working experience, is the offering of well-being services. These are basically intended to help individuals to more effectively and adequately deal with their personal private life problems and more promptly sort them out. These types of services are typically offered in the form of counselling and advisory services (Armstrong, 2010).

Employers can also offer to their staff a wide array of additional different services, usually lumped together under the umbrella term of concierge services. The implementation of such an initiative implies that employers take in charge some of the daily duties usually carried out by the employees as part of their daily private life. In practice, employer will delegate other people to carry out these duties on behalf of the employees. Typical examples of concierge services are the collection and delivery of laundry, some types of shopping, parcel dispatch and delivery, home and car repair and so forth (Armstrong, 2010).

Although Armstrong (2010) includes learning and development opportunities amongst the collective forms of extrinsic non-financial rewards, their classification presents in some ways a certain degree of difficulty and, according to the circumstances, may not be consequently reveal so obvious. Whether on the one hand programmes and growth prospects are potentially made available to the entire staff, on the other hand these opportunities will practically be offered only to those individuals who have the potential to grow and more effectively contribute to the business success. Differently from the courses offered to employees in order to these developing their knowledge, interest and abilities related to specific subjects or areas of personal interest, these programmes are intended to improve employees skills and abilities within the workplace or anyway enhance the quality of individuals behaviour in work-related situations. Notwithstanding, it cannot be denied that whether, and provided that, all of the employees can potentially take advantage of these opportunities, these can be considered, as maintained by Armstrong (2010), as collective extrinsic forms of non-financial reward.

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Section VII
Para-financial Reward

Defining para-financial rewards

Inasmuch as non-financial rewards are usually identified with all of those types of rewards which are expressed in every form but money, many of the non-financial rewards offered by employers to their staff actually do have a not negligible financial value. Silverman (2004) defining non-financial recognition contends that "non-financial recognition … simply means that whatever is given, it should not be just money", but he also recognizes that this "does not necessarily mean that the recognition provided should have no financial value."

Rewards and the different existing forms of recognition have always been traditionally classified into two groups: financial and non-financial. This bipartite classification, however, can no longer be considered adequate in modern times. All too often, non-financial rewards have a financial and tangible value which, in some circumstances, can even be considered on a scale from appreciable to very high. This is not clearly invariably the case, but it cannot be overlooked the fact that the financial value of the non-financial rewards offered by employers to their employees is in some cases quite remarkable.

Many employees more frequently, but not necessary exclusively, at executive level benefit, for instance, of company cars and sometimes even of luxury cars. Individuals who receive a company car are not usually charged of any expenses related to the car possession and use, as for example car insurance and maintenance. Beneficiaries cost as regards such type of benefit is usually limited, when the value of the car lease concurs to the definition of the individual taxable income, to the payment on this specific amount of the regular taxes, as provided for by the local government fiscal law. Yet, many organizations offering a company car to some of their managers and executives also provide beneficiaries with gas cards by means of which the company directly takes in charge individuals' fuel expenses. Indeed, whether the relevant petrol company also offers some loyalty or reward programmes to its customers, employees would also benefit of additional free gifts on the basis of the money spent by their employer.

This is just an example, but it is obvious that all of the mentioned perquisites: car, fuel, insurance, parking, etc., clearly represent an additional financial burden for the employer and, to some extent, unexpected (which will later become expected and taken as axiomatic) huge financial savings for the individuals concerned. The financial value of the above mentioned costs and savings, respectively for businesses and employees, might sometimes clearly be rather remarkable.

The circumstance that these types of rewards are not offered in cash does not clearly impair their worthiness which, overall, has an undeniable considerable financial value. It is not about cash, but it can hardly be considered that these benefits do not have a well-identifiable financial worth.

Being essentially in between financial and non-financial rewards, but definitely closer to financial rewards, this type of benefits can be defined as "para-financial."

The main feature of these rewards is that their financial worth can usually promptly be identified. The cost of leasing a car and covering fuel, parking and insurance policies expenses, for instance, can immediately be determined by everybody, regardless of the importance each individual can associate to each of these perquisites. Rewards which can promptly be measured are not only those which are normally offered to part of a business employees or executives; the same conclusions can be drawn with reference to the benefits which are usually offered to the entire workforce, as is the case, for instance, of meal and fuel vouchers, regardless of the circumstance that these may be the subject of NICs or represent taxable income. Luncheon and fuel vouchers have printed in their front a clear amount of their worthiness expressed in local currency, called denomination or front value, which promptly enable beneficiaries to appreciate their financial value. Non-financial rewards are instead in general non-measurable or rather non-objectively measureable, entailing that different individuals can attribute to each of them a different value and level of appreciation.

The circumstance that the financial worth of para-financial rewards can promptly be estimated is also associated with another feature often typical, but not exclusive, of this form of rewards, namely their tangibility. Albeit para-rewards might sometimes be represented by small pieces of paper called vouchers, these can promptly be associated with the goods that those pieces of paper represent. Retail vouchers, for instance, can directly be associated with a piece of furniture, an item of clothing, a domestic appliance or something else by every employee accordingly. Theatre tickets or travel vouchers, even though referred to services and as such to something intangible for definition, can in any case immediately be estimated in value by individuals, who are able to determine their worthiness and the financial savings they can make thanks to them. All of this can contribute to let employees perceive this type of perquisites as virtually tangible.

The fact that rewards such as retail and fuel vouchers can immediately be measured and, as such, compared in value with those received by other beneficiaries of the same perquisite, actually reinforces the argument for these rewards being considered para-financial. The same tenet can be applied to other benefits such as company cars, laptops, tablets, smart phones, etc. Individuals can virtually instantly associate with each of them an immediate financial value and make a reliable comparison. That is also why financial rewards in general are usually deemed as tangible, whereas non-financial rewards are typically acknowledged as intangible; albeit, as we have seen, not all of these can be considered as such.

It is objectively difficult to compare the effect produced and the worthiness attributed to an informal “thank you” by two different individuals; this becomes easier when it takes to compare the importance and value which two different employees attribute to a holiday or a dinner at the local exclusive restaurant. The level of appreciation can actually be different, but the objective value of the benefit will invariably be the same. Despite all of these perquisites are not actually offered in cash, it can be directly associated with them a precise financial value and a cost which the employee has not to face in that is the employer which will take it in charge. The difference between an informal “thank you” and a travel voucher for a holiday for two in a popular holiday destination, not to mention a company car, is anyhow glaring and remarkable.

Another reward’s feature which can help to determine whether classify it as para-financial or non-financial, is the scope or reason for an employer giving the reward to an individual. The example of a training programme could help to explain this aspect more in-depth. As we have seen, collective non-financial rewards are traditionally offered to individuals in order to provide them with a more pleasant and enjoyable workplace and relieve them of the pressure put on them by their personal problems, whatever their nature. This should contribute to individuals being more focused on their job and enhance the quality of their working experience. Non-financial rewards, hence, mainly relate to the work and the workplace. In contrast, para-financial rewards are non-work related and are offered to employees in order to improve their out-of-work quality life, nurture their personal interests and enjoy their leisure.

Training programmes offered to employees in order to improve their professional skills are clearly different from cooking or swimming courses. Indeed, the difference is at the basis of the offer, by means of the former organizations intend to contribute to an individual professional growth, which will in turn enable employers to extend the level of responsibility which they can entrust to the person concerned; by means of the latter employers want to offer an individual opportunities to relax, have fun or, anyhow, to do something he/she appreciates, enjoys and likes to do as part of his/her private life. Employers will take in charge a specific cost which will be saved by the individual concerned. It is not about cash, but it can hardly be said that there is no money behind this: that spent by the employer and that saved by the beneficiary.

Why is this important?

It could be argued that introducing the further definition of para-reward is not necessary and that this would only contribute to overload the reward terminology just for the sake of introducing new terms and definitions.

Para-Financial Reward

Considering the relevance that these types of rewards are gaining within the overall reward packages usually offered by employers to their staff and the fact that all of these rewards go under the definition of non-financial rewards, in spite of the relevant value these also have from the financial point of view, it clearly emerges that the importance of pointing out the characteristics of this form of rewards is not just rhetorical.

Both employers and employees need to be aware and conscious of the circumstance that some of the rewards they respectively offer and receive, albeit not being provided in cash, have a certain financial value and represent expenses for the employers and savings for the employees. Unquestionably, all of these rewards have a financial value which can clearly and promptly be estimated. It is, hence, crucially important that individuals perceive and truly consider para-rewards as valuable as cash.

This distinction can reveal to be particularly useful for those organizations, increasingly growing in quantity, which are used to offer to their staff total reward statements. The introduction of the concept of para-rewards will in fact certainly enable employers to better make individuals understand the worthiness of the overall reward packages they receive and employees to more promptly and genuinely appreciate these.

Classification of para-financial rewards

Para-financial rewards can essentially be divided into two main groupings, namely: collective and individual para-financial rewards. Also in this case, the reason for the different classification mainly depends on whether or not rewards are simultaneously offered and accessible to the entire workforce. Notwithstanding, the circumstance that these rewards are provided by employers to the entire staff or to employees individually does neither entail nor make any difference in the shape rewards can practically came in.

In order to offer para-financial rewards to their employees, organizations can also have recourse to the collective approach and more in particular to flexible benefits schemes, which are usually offered in the form of cafeteria benefits. These schemes enable individuals to choose the rewards they consider most appropriate to satisfy their wants amongst a selection of benefits pre-identified by the employer.

Whereas in general benefits can be divided into deferred and immediate benefits, para-financial rewards all belong to the category of immediate benefits.

Employers can offer to their staff para-financial rewards virtually in any shape or form, many of the options available to employers have actually already been mentioned in the previous paragraph:

- Retail, travel, luncheon and fuel vouchers
- Meals at exclusive restaurants
- Hi-tech items
- Domestic goods and appliances
- Theatre and cinema tickets

- Non-work-related courses
- Beauty treatments
- Outdoor activities
- Transportation season tickets

The above listed forms represent just a few examples of the para-financial rewards employers can offer to their employees.

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Section VIII
Reward and Recognition

Reward and recognition

Very often the words reward and recognition are used interchangeably by reason of the apparent, assumed overlap existing between the two terms. Indeed, relations between the two terms notwithstanding in that recognition is essentially a component of reward, these are actually associated with two different ideas and are, or rather, should be used in practice by employers to achieve two different objectives. Being fully aware of these differences and having crystal clear ideas about their real meaning and aim is absolutely important for the development of consistent and effective reward and total reward systems.

Preliminary analysing the terminological point of view can possibly help to better analyse the issue.

As discussed in Section III, the term “reward”, albeit not possibly representing the best option amongst all of the available alternatives, has been widely recognized as the most appropriate term to use when referring to the whole range of financial, non-financial and para-financial awards that employers offer to their employees in exchange for their contribution to the attainment of organizational success. In this comprehensive definition are hence widely included base pay, incentives and recognition; which essentially represent the funding pillars of reward. Each of these pillars, however, is aimed at attaining a different and specific objective.

The term recognition is defined by the Oxford Dictionary (2005) as the “appreciation or acclaim for an achievement, service or ability.” It clearly emerges that the idea of recognition is by extension associated with something, action or behaviour, which has already occurred and that has been appreciated and considered significant and useful for the attainment of the objectives pre-identified by employers; or to put it in Silverman (2004) words “recognition concerns special notice or acknowledgement of something done.”

Reward and Recognition

Limaye and Sharma (2012) suggest that recognition is mostly intended to thank employees for doing the "right thing", whereas rewards are basically offered to individuals in order to compensate them "for their efforts and contribution" to organizational success. They also maintain that whilst recognition is mostly based on non-financial means, reward is intended to meet individual financial expectations.

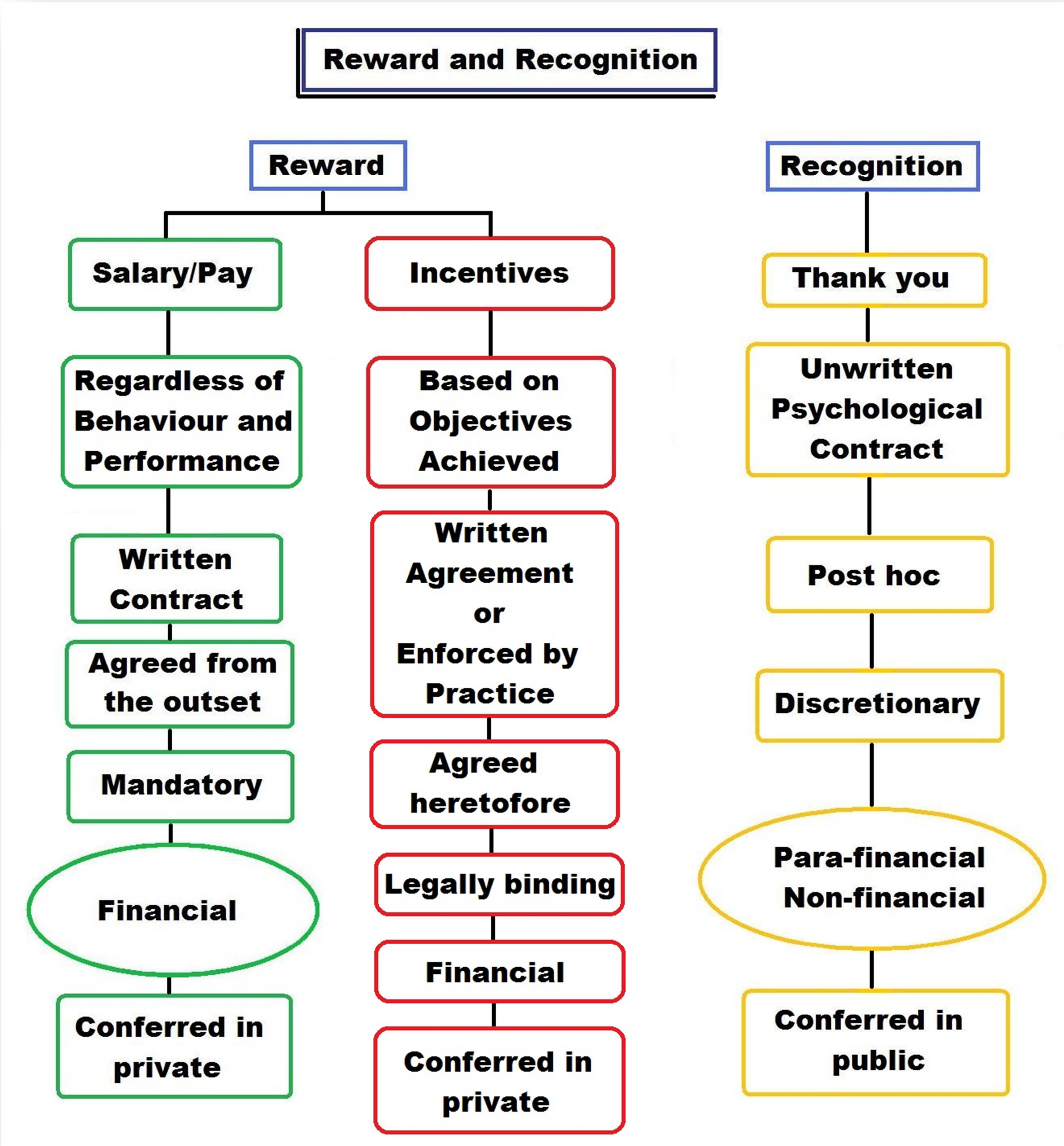

Table 26 – Reward and recognition

Stewart (2011) defines reward as a financial or non-financial item conferred to an employee for "completing/reaching an achievement/milestone" associating therefore reward with the attainment of remarkable feats, whereas recognition as an employer explicit sign of appreciation of individual behaviour and contribution to the attainment of the organizational objectives. Both reward and recognition would hence be offered to employees as a consequence of a specific event and after that the event has occurred. The Author also refers to compensation, where base and variable pay are included, as one of the main components of a reward offering based on the total reward strategic approach.

The composition of the value proposition suggested by the Author is essentially complete, but confusion could possibly arise by reason of the terminology used. Reward is apparently intended and identified in this case exclusively with incentives or more in general with variable pay. According to the definitions of reward and recognition provided by the Author these seem in fact both intended to honour the different types of achievements, outcomes and behaviour that employers aim at awarding, whereas compensation is associated with the fixed component or reward, contractually provided for the work performed by individuals regardless of their behaviour and performance. This classification, putting wording aside, is actually similar to that used by British Airways, which makes a distinction between reward - which is associated with pay; incentives - which are offered when employees achieve one or more predetermined objectives and recognition - whose purport is saying “thank you” to employees for a specific achievement (Rose, 2011).

Albeit the term reward is mostly associated with the overall value proposition offered by employers, that is, the combination of financial and non-financial rewards, most frequently and to the specific extent of this analysis, the term reward is used in the limited meaning of base pay and incentives. The crucial factor on which the difference between rewards intended as such and recognition mainly relies is actually time-related. Rewards are promised by employers to individuals from the beginning of the working relationship, whilst recognition arises in an after-the-fact fashion (Silverman, 2004). Yet, rewards represent an important part of the working agreement, pay and incentives are in actual fact agreed, identified and included in detail in the written contract of employment, whereas recognition is not usually part of any legal written contract. As aptly summarized by Rosabeth Moss Kanter (Rose, 2011): “compensation is a right, recognition is a gift.”

Inasmuch as employers regularly paying salaries and financial rewards to their staff can be deemed legally compliant, those who do not introduce and offer to their workforce recognition schemes can be considered, to a degree, as breaching the psychological contract. Albeit recognition is not provided for by any clause of a written contract of employment, nowadays, individuals are not only expected to receive from their employers the payment of the financial rewards or compensation contractually agreed, but also to be recognized and acknowledged for their efforts, achievements and contribution.

An additional element of paramount importance at the basis of the difference between reward and recognition can be identified in the definitions provided by Juran (2003), who defines rewards as the money paid by employers to staff in the forms of salary increases, bonuses and promotions, which are linked to the assessment of individual sustained performance and are normally offered in private, whereas recognition as forms of awards expressed by means of events or ceremonies aiming to give visibility and publicity to commendable performance and achievements. Similarly, but even more explicitly, Ostendorf (APQC, 2002) suggests that "recognition is more than likely going to be public. Rewards don't have to be." The reason for giving visibility to recognition is normally associated with the same scope underpinning the introduction of the overall scheme, that is to say, thanking individuals for their particular contribution and efforts. Clearly a public formal "thank you" is likely to produce much better effects than a private one and is also likely to be remembered for a longer period of time by the individuals concerned, becoming as such memorable. What matters the most is the message that recognition intends to put across. Whatever the incidence of the tangible feature of the selected form of award, the main element of recognition still rests with the "thank you". Completely different is the case of rewards (intended as pay and incentives), these have been contractually agreed and as such represent somewhat like a debt for the employer and are practically due to the employees, not negligibly, regardless of their performance and behaviour.

The introduction of recognition programmes within organizations helps both employers and employees to differentiate pay from the other types of awards (Rose, 2011). This process is basically enabled by a psychological state which Jeffrey (2003) calls *separability*. The tenet at the basis of this human attitude is that individuals essentially tend to aggregate and separate things and phenomena according to their sources and the way they are perceived. Employees who receive, in addition to their salary, cash supplements for their outstanding performance, efforts or achievements are likely to consider the overall amount of money all-in-one as deriving from their job and to disregard the circumstance that part of the overall sum of money has been received for something special. In contrast, recognition initiatives are much more likely to be recalled and as such most appreciated by individuals. The same perceptions are likely to arise in the case of non-consolidated cash bonuses, keeping these amounts separated from salary will help individuals to differentiate them and induce employees to attach to them much more significance and value (Rose, 2011).

An additional distinct asset of recognition programmes mainly based on non-financial and para-financial rewards is the so-called "memory value", whose concept is associated with the idea that individuals are most likely to remember non-cash and para-financial awards than money. Findings of an investigation carried out in 2006 by Workspan revealed that a remarkable 18 per cent of respondents did not even remember how they spend their cash awards. Inasmuch as people can be delighted and proud to show to their relatives and friends an object that they have received as a "thank you" from their employers, they are likely to be even thrilled to tell their relatives and friends about a travel to a popular tourist destination received as a gift from their organization. Additionally, in the latter case memory is destined to even last longer (Rose, 2011), also thanks to the pictures which will be taken, shared and showed to friends in different occasions and perhaps posted online by means of social networks.

Recognition awarded by means of non-financial and para-financial rewards provide thus individuals external in addition to internal visibility. This will clearly make employees even gladder and prouder of their work, making them understand that whether their employer is publicly awarding them is because the activities and tasks they carry out are deemed meaningful and significant for the business success. Yet, individuals will thus recognize that the employer is giving them the opportunity to perform and do things which are appreciated and significant for the business, which should contribute in turn to increase further employee gratefulness and loyalty to the employer too.

The emotional impact spawned by non-financial and para-financial awards, which can also result amplified by the circumstance that these are handed to employees on occasion of specifically organized public events, is also correlated to other two mental processes called by Jeffrey (2003) *evaluability* and *justifiability*. The concept of evaluability is linked to the value which different individuals can associate with a non-financial or para-financial award which, in some circumstances, might also be perceived as higher than the real purchasing cost of the item or service provided by the organization. The idea of justifiability is instead associated with the circumstance that, even though individuals could have bought by themselves the articles they receive from their employer as a "thank you", they do not in that might consider those items or services particularly costly and in some ways not necessary for themselves and their families (or anyway not worth the sacrifice necessary to buy these). This, however, does not really entails by any means that they do not appreciate and justify, receiving them from their employers.

Para-financial rewards will be even more welcomed and appreciated by individuals whether these have been chosen by an employer having in mind the beneficiary expectations and wants. This will unquestionably proof that the employer has dedicated time and thoughts to the individual and that its efforts were focused on providing the employee something he/she would have genuinely appreciated. This case is remarkably different from the case in which as employer would award the employee with something, maybe even cheap and outmoded, just for the sake of giving something (Rose, 2011).

Reward managers and specialists have to be extremely careful when designing and, above all, managing these schemes and need to do whatever they can in order to avert the disadvantages usually associated with the implementation of these programmes, which can trigger dissatisfaction and discontent amongst the individuals not receiving any form of award (Armstrong, 2010).

As maintained by Rose (2011) it is somewhat ludicrous that employers spend much more than half of their overall annual budgets in reward and employees neither appreciate their worthiness nor "understand what it is about." The real true is that in many cases employers too have not totally clear how and why they offer rewards to their employees. This is certainly causing confusion amongst individuals but also amongst business leaders and managers. If rewards are intended as the sum of pay and incentives and recognition schemes as a means to say "thank you" to individuals, managers need to be aware that in order to award a specific achievement is not a salary increase that they have to ask for to the employer. Similarly, whether they want to acknowledge the regular and sustained outstanding performance of a direct report it is not a flat-screen colour TV that they have to propose for the individual concerned. The mechanism of these rules have to be clearly identified from the outset and hence shared within the entire organization's management in order to avert triggering potentially dangerous drawbacks, unintended negative outcomes and indirectly foster undesirable behaviour.

The BA model distinguishing fixed salary from incentives and recognition schemes, can reveal to be clearer to understand and hence to explain and execute. Indeed, this scheme enable both managers and employees to associate specific reasons with each element of reward: fixed salary – paid according to the salary grade system, incentives – to award outstanding, sustained performance and results, and recognition – to thanks employees for specific achievements and behaviour.

Recognition does not actually represent an additional form of reward, but rather a further and effectual way to implement reward practices and, to some degree, an additional tool enabling reward managers and specialists to put the organization reward system in order, assigning to each form of reward a specific and clear purpose and objective. Like all of the other tools, however, its effectiveness is essentially relying on its use; managers need to know the mechanism of the system and being able to consistently execute it in practice.

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Section IX
Getting ready for designing and developing a reward system

The importance of an equitable and fair approach to reward management

Sage old Chinese people use to say that all men's troubles derive from their mouths: namely from what they say and what they eat. Financial reward risks playing the same role for companies. Unfair, inequitable and unjust financial rewards systems in fact risk seriously jeopardizing organizational success, social relationships and the correct and regular unfolding of the daily working activities within an organization.

Whatever the reward philosophies and strategies pursued by a company, employers should never neglect nor underestimate the importance of money. Organizations should pay extra care to cash, as a crucial component of the reward packages they offer, not only for its hygiene attribute, but also for the equitable and fair image and representation of the overall reward and management system it can and should contribute to foster and promote within the business (Longo, 2012).

Inasmuch as fairness and equitableness are crucially important general values, which should characterize each aspect and process within every workplace, these features become even more important when associated with reward management. As contended by Armstrong (2009), fairness, equitableness and consistency should be put at the basis, as the founding pillars, of every reward management approach. Reward strategies, the philosophies underpinning these and the practices by means of which strategies are executed, together with HR strategy and practices, should therefore also strongly contribute to promote fairness and equitableness within every organization. This process will in turn help employers to reinforce organizational values and shared beliefs and to foster integrity and the desired behaviour in the workplace (Longo, 2012).

Getting ready for designing and developing a Reward System

According to the ACAS (2005), salary has a remarkable impact on working relationships; employers should consequently develop pay schemes capable of fairly rewarding individuals according to the results they actually produce. Reward can and should be used by employers as the most effective, practical means to provide their employees tangible evidence of integrity and consistency within the workplace. As maintained by Armstrong (2009), reward practices should thus be used by employers to treat individuals fairly and not as something which could even reveal to be harmful for organizations.

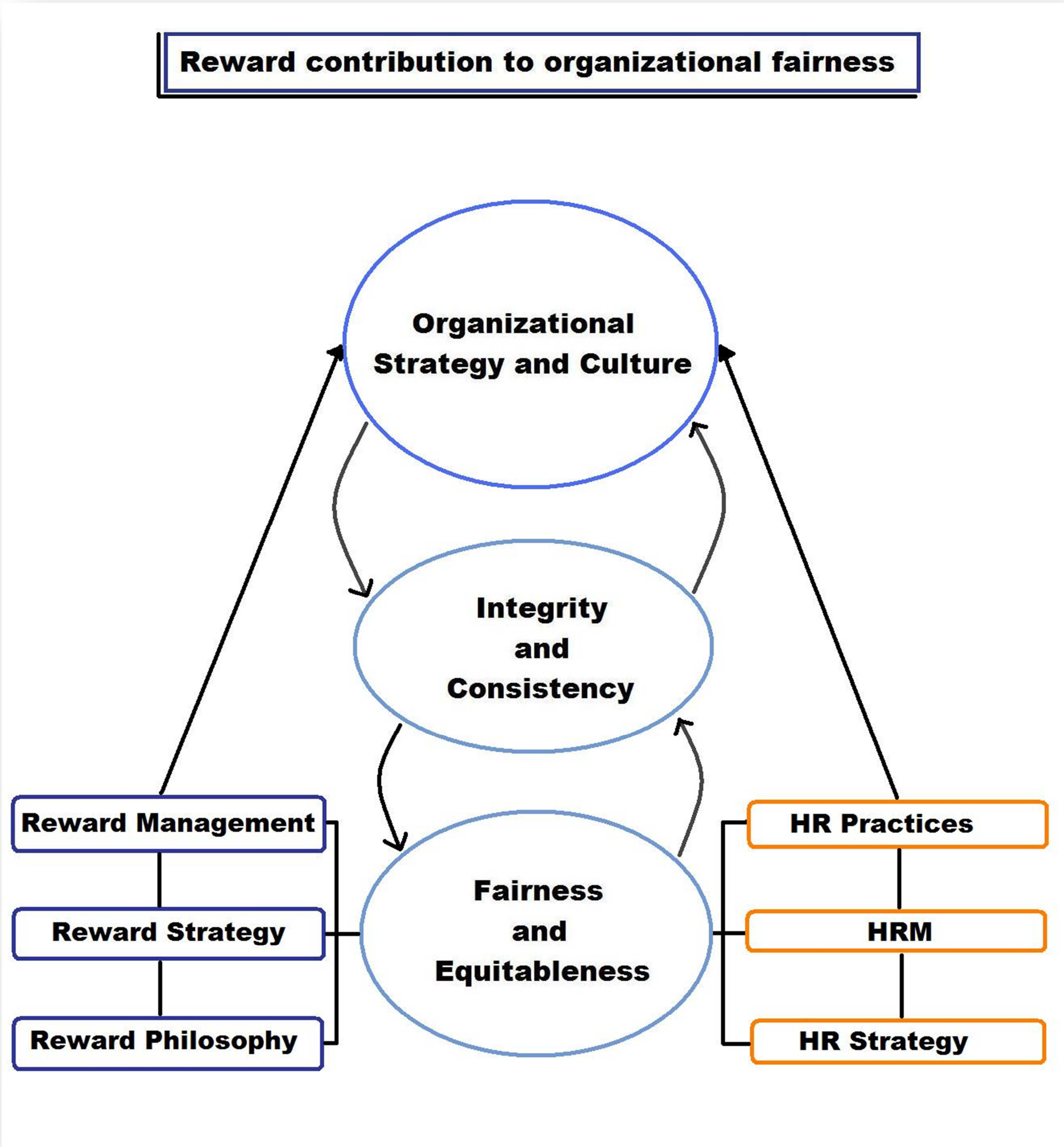

Table 27 – Reward contribution to organizational fairness

Bankers' bonus schemes misuse is a good, or rather, a bad example of how reward practices can turn to be detrimental for an organization. Unfortunately, the banking and financial industry is not the only example of bad reward practices design and implementation. Just a very few years ago general public in the UK was appalled at learning that civil executives were receiving a staggering £47 million in bonuses, whereas there were soldiers receiving annual salaries worth less than £17,000. The circumstance that, in the UK, some hospitality organizations included tips in staff's salaries in order to meet the national minimum wage requirements set by the existing provisions definitely represented another dreadful example of very bad and unfair reward practices (Keefe, 2010). Although it must be observed that, with reference to this particular deplorable case like in others, the UK legal system promptly took action and as a consequence of that from October 2009 bars and restaurants owners are no longer permitted to consider gratuities as part of employee salaries (Keefe, 2010).

In general, employers can decide to have recourse to a variety of different approaches in order to set pay levels and individuals' reward packages composition, but, irrespective of the approach they might choose to implement, what matters the most is that the method they have selected could actually enable them to let employees perceive and consider the existing reward system as both fair and equitable (Torrington et al, 2008).

Although this phenomenon has captured a wider interest and attention in the mid to late 2000s by reason of the bankers' bonuses scandal and of the likely domino effect these produced, in that deemed by many to have triggered the international financial crisis, this is not really an occurrence typical of recent times only. As discussed in section one, the negative impact on individual motivation and satisfaction caused by a reward system perceived as inequitable and unfair by individuals had in fact already been thoroughly investigated by John Stacey Adams back in the mid-1960s.

Whenever individuals feel that their output, which they deem equal or even superior to that produced by their colleagues, is not rewarded accordingly, they feel and consider breached their psychological contract. In other words, in such circumstances employees believe that the employer treat them neither fairly nor equitably. Individuals show, by extension, signs of dissatisfaction which will be practically manifested in a series of actions such as increased absenteeism, desire to leave the organization, poor performance and lack of trust on the company employee relations practices (Torrington et al, 2008). As suggested by Robertson (Keefe, 2010), the problem is not that much associated with the level of reward in general, which could also be lower vis-à-vis that available for the same roles in the external environment, but rather with the internal inequalities, which can also "destabilise" a business. Such bad practices are actually likely to directly and indirectly have remarkable effects upon an organization budget. On the one hand sickness and higher employee turnover rate would clearly account for additional considerable costs; on the other hand repercussions of employee resentment will also be reflected in poor customer service, which could in turn provoke a negative impact on customers' appreciation of the firm and of its products and services (Cotton, 2010).

Fair and equitable, however, is not the same as and has not to be confused with equal. People do not tend to criticise and judge as inappropriate disparity in reward per se. Even considerable differences in treatment, both at pay and benefits levels, could be accepted by individuals when these are perceived and deemed as justified by objectives circumstances (Kessler, 2010). Individuals would certainly accept high bonuses for executives and senior management positions, provided that these are reasonable, justified and, most of all, "proportionate to the need" (Keefe, 2010). More in details, Reilly (Keefe, 2010) explains that these differences are accepted when these are directly linked to reasonable factors, namely "working hard, helping others, contributing more and working longer hours."

This clearly is also a matter of culture, the approach to reward management should definitely be consistent and coherent with the culture an organization is aiming to foster and promote. Before going towards a direction, whatever it might be, employers should be sure that their decisions will be clearly understood and accepted by everybody, differently this could produce a series of drawbacks, negative effects and ultimately divisiveness within the business.

Line Managers should clearly be bright and prepared to identify and assess these cases as soon as they arise. When a big negative change in individuals behaviour should be identified, as for instance could be the case of an unusually increasing trend of the "throw a sickie" phenomenon, line managers should try to analyse and determine whether recent events associated with salary or grade increases granted to other members of staff could be at the basis of that behaviour. What matters is not what the employer, even conscientiously, has decided to do, but how that decision is perceived and felt by individuals.

Employee participation and contribution to the pay determination process can unquestionably contribute to make the implementation procedure easier, as well as can communication and the explanation to the entire workforce of the mechanism and reasons which have accounted for the identification of that particular method.

Notwithstanding, communication is clearly pointless whether it is not strictly coupled with transparency and clarity. Employers and reward specialists should also make some efforts in order to ensure that the pay determination approach and the way it will be executed is clearly understood and learned by all of the individuals concerned (Torrington et al, 2008).

A similar approach should also be used by businesses when planning to introduce changes in the current pay schemes. As stressed by the ACAS (2005), in order to avoid legal actions to be taken by staff, employers should agree with employees and their representatives the planned changes on pay schemes before these are implemented. This approach will clearly help organizations to ensure that the new system is accepted and perceived as fair by staff.

There is actually another area which might represent, especially in the years to come, a cause for employers concerns. As pointed out by Keefe (2010), employers could soon be confronted with staff complaints of unfair and unequal treatment as for what concerns the changes in the pension schemes they have introduced and implemented within their organizations. During the very last few years many employers have, and many processes are indeed still underway, changed their pension schemes switching from the defined benefit (DB) to the defined contribution (DC) scheme. Although all or part of these schemes' changes have possibly been agreed with trade unions and employees representatives, it cannot either be neglected nor excluded that, as warned by Biggs (2010), these differences could give raise to tensions within organizations during the next years.

When developing pay systems, it might reveal to be particularly difficult for employers make sure that these are perceived as fair by everybody, notwithstanding employers who introduce equitable procedures will be the most likely to attain the most appreciable and effective results (Torrington et al, 2008).

Businesses should also care about the felt-fair aspect of the reward packages they offer. The circumstance that "ensuring that reward is internally fair" is an issue which has regularly emerged in the CIPD Reward Management Surveys (CIPD, 2010 - 2011) is clearly self-explanatory.

What must be known before starting

Inasmuch as devising fair and equitable reward systems is crucially important for employers to attain their intended strategies and objectives, there are a number of factors and concepts, theories included, which have to be necessary known by reward professionals and practitioners in order to design and develop effective and consistent reward schemes appropriately fitting both individuals and employers wants and expectations.

Relevant theories

Efficiency wage theory

Also known as "economy of high wages theory", this theory is based on the tenet that paying higher-than-market rate salaries will enable organizations to attract, retain and motivate staff. This theory is also aimed at curbing labour turnover and persuading staff that they are treated fairly.

Employers have usually recourse to this approach when they want to be considered market leaders and branding themselves as above-the-average employers.

Human capital theory

This theory aims at building on the staff education and skills to generate productive capital and leading to a win-win situation for both employers and employees. Individuals investing in order to enhance their personal skills and capabilities can be expected to receive better levels of pay and capitalize on these increased qualities to ensure job security, whereas employers can expect from employees a better return on investment in terms of both performance, productivity and, most of all, innovation.

Agency theory
According to this theory the owners/principals of an organization are considered separated from the employees/agents, this is likely to generate "agency costs" in that agents are not genuinely interested in the business as owners are. Consequently principals are expected that agents will not be as productive as they would be and need hence to find persuasive ways to motivate and engage these.

Employers, who decide to develop their businesses reward practices having recourse to the agency theory, require to set out effective incentive schemes based on paying individuals according to measureable results. This is considered the only option available for employers to induce managers to effectively and genuinely do whatever they can in order to pursue the employers' interest.

The effort bargain
According to this approach, employers have to determine the right level of reward for each employee in order to these performing at their best. Bargaining is hence seen as a means to an end both for employees and employers. The former want to be fairly awarded for their efforts, whereas the latter aim to offer what it takes, but no more, to receive the required and expected support in the attainment of the organizational objectives. To put it another way, rates of pay are thus bargained by individuals and organizations according to the skills individuals actually possess and the value employers associate with those capabilities.

The relevance of the influence exerted by the contextual factor

It can be argued that in some ways employers are not completely free to determine the rates of pay they would like to introduce and apply within their businesses. Even though they can decide the approach and theory to reward management on which base the mechanism of their reward systems, pressures coming from the contextual environment are actually rather remarkable, insofar as employers cannot really neither neglect nor underestimate these by any means.

Indeed, reward systems fall under both external and internal influence. External influences are those against which employers can typically exert much less control, whereas internal pressures can usually, but not invariably, relatively better be controlled and managed by employers.

The external environment
The external pressures employers have to particularly care about, in that even though affecting organizations' reward systems totally escape from the employer direct control, are represented by the legislative framework and the labour market features.

The legislative framework

National governments are becoming increasingly invasive as for what concerns the reward sphere. Since most of the regulations impacting reward practices basically aims to protect employees and more in particular the weakest part of the working population, this cannot a priori be considered as negative.

Legislation affecting reward is in fact essentially aiming at ensuring equal pay treatment amongst staff and at introducing, where available, minimum wages. Employers need to care about employment legislation and its development in order to avoid the legal risks potentially arising from breaching it. The negative consequences deriving from infringing employment regulations can reveal to be particularly detrimental for a firm not only in financial terms, that is, the costs associated with court cases representation and the possible consequent compensation due to plaintiffs following judges final ruling, but also for the reputational damage a business can suffer from these events, which usually attract a considerable media attention and coverage.

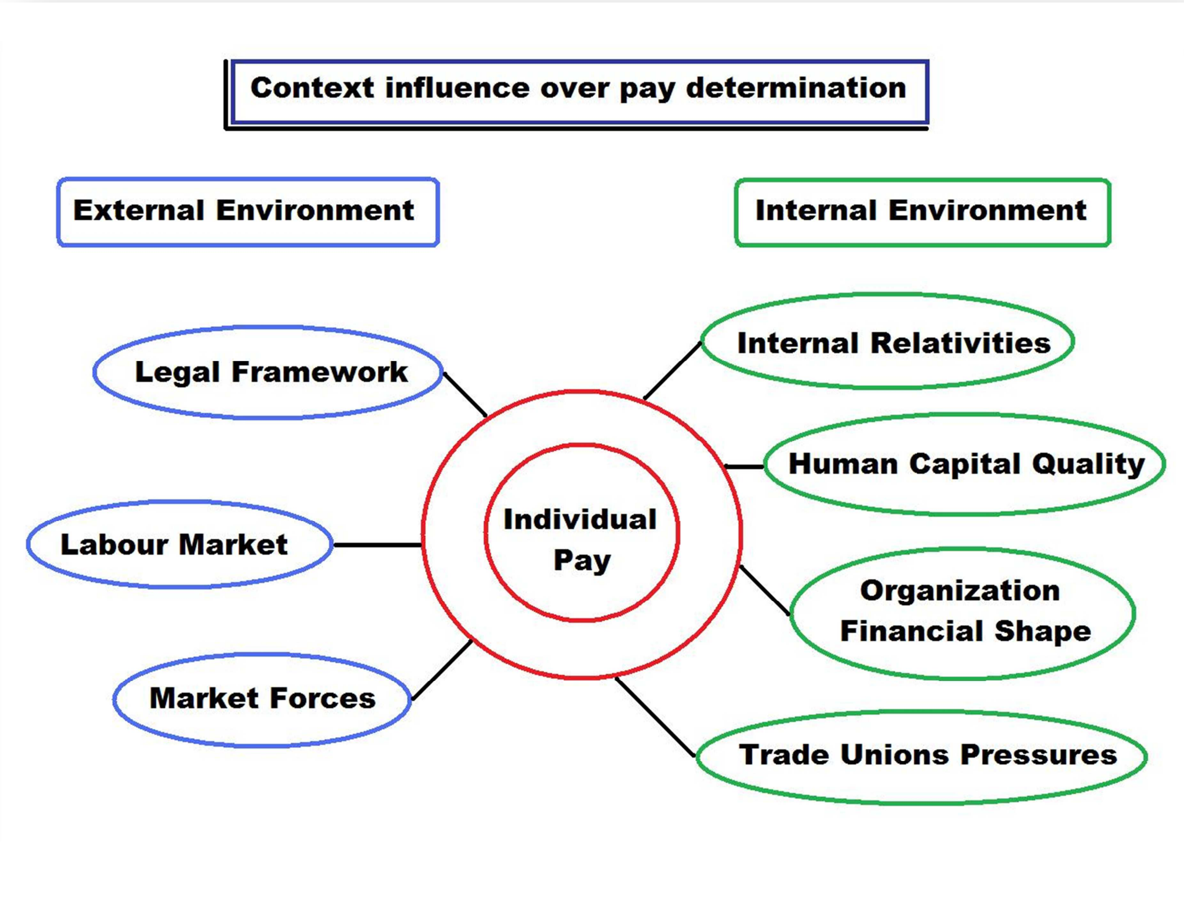

Table 28 – The influence of context on pay determination

A different nature has, for instance, the government legislation affecting businesses pension schemes, which has a different nature vis-à-vis the previous examples and is increasingly becoming a cause for concern, albeit for different reasons, both for employers and employees.

Labour market

An additional external source of potentially relevant and remarkable pressure, likely to strongly impact firms' reward systems, is represented by the labour market. An in-depth and thorough knowledge of the relevant labour market trends must hence to be considered as a mandatory prerequisite for reward professionals who want to develop and design sound reward systems within an organization.

Labour market facts and figures are particularly important in that labour, as every other service, goods or utility, is subject to the law of supply and demand which, in addition to providing precious information about salary trends, can enable employers to indirectly acquire important information about workers availability in the geographical area of interest. The circumstance that the labour market works exactly as the other markets do entails that, as it occurs for the other goods and services, when labour supply exceeds the relative demand pay levels decrease; vice versa, when there is a lack of labour and demand outweigh supply pay levels tend to increase.

It is hence important for reward managers and specialists to constantly keep updated on the relevant labour market trends and developments; differently, the risk is to offer employees reward packages detached from the reality. Being constantly informed about the general trends and characteristics of the labour market can in some ways be considered as a form or reality check enabling reward professionals to design and develop reward systems helping employers to attract and hopefully retain staff according to the current market circumstances and tendencies.

The approach enabling reward professionals to investigate external relativities is called market pricing, which will be discussed in Section X. By means of this method reward managers can acquire a clear picture of the pay rates offered by the other employers operating in the same market and decide how positioning their reward offering therein.

Market Forces

Indeed, when specific and contingent circumstances occur, more in particular when employers experience unusually exceptional difficulties in recruiting notably skilled individuals, reward managers should also need to consider the influence played by market forces when making decision about the reward package they should better offer in such exceptional circumstances. The case being, omitting or disregarding this further approach can reveal to be particularly detrimental insofar as practically accounting for employers being unable to properly fill the required position. This subject too will be the object of further analysis in Section X.

The internal context

In addition to the pressure deriving from the external environment, reward professionals also need to carefully consider the influence stemming from the internal environment. The fact that these kinds of pressures are coming from within the organization and can thus more directly be subject to employers control may contribute to make appear the issue deceptively simple. Indeed, their internal nature notwithstanding, appropriately and effectively managing the impact of internal pressure on rewards, particularly in some cases, might reveal to be everything but straightforward.

Internal relativities
The first important investigation related to the internal environment is represented by the assessment of each job position. More in particular this phase is concerned with identifying the importance associated with each role available within the business for the attainment of the organizational objectives and hence determine how important each of these is vis-à-vis the others.

This activity represents one of those cases in which reward professionals may experience some difficulties mainly emerging in the form of the resistance offered from the individuals concerned, who might tend to associate with their role a degree of importance not genuinely representing the real reality and circumstances.

Human capital qualities
This aspect of pay determination is essentially based on the importance that employers associate with human capital. Individuals will thus be paid according to their qualities, skills and competencies and for the level of their performance, which will in turn enable them to differently contribute to the overall organizational objectives and success (Armstrong, 2010).

Company financial shape
Whatever the rates of pay employers might desire to offer to employees, these clearly need to be realistic. Thinking to offer to employees higher rates than they can actually afford to pay would definitely represent a massive blunder and would seriously risk jeopardizing and compromising the regular and correct unfolding of the company operations.

As stressed by Armstrong (2010), the idea and most of all the meaning of affordability needs hence to be carefully considered throughout by reward professionals when developing and eventually redesigning reward systems. Before setting the level of pay to be associated with each role, according to the importance internally recognized to each of them, employers have to be absolutely sure that they are in the position to actually pay the identified rates.

Trade Unions pressures
Until 1980s in the private sector, and even until more recently in the public sector, the method of determining pay and conditions in the UK was basically decided through collective bargaining with trade unions, which were mainly carried out at national or at industry level.

However, this “multi-employer” bargaining system declined sharply during the 1980s and 1990s, insofar as in 2004 only 36 per cent of the public sector employers and 1 per cent of the private sector companies still had salary arrangements determined by means of collective bargaining processes (Kersley et al, 2006). The end of this long-established system has enabled British organizations to introduce and develop payment systems more specifically destined to reward individual skills, efforts and performance and to achieve a higher level of flexibility in the provision of benefits (Torrington et al, 2008).

However, things are not working this way globally and in many countries, regions or even within single organizations the influence of trade unions could still be rather remarkable. Trade unions normally prompt employers to increase salary rates in order to protect individual purchasing power from inflationary pressures. In some ways, these aim at making sure that employers respect the affordability criterion when making pay decisions. Unions usually exert pressure on employers in order to these increase salary levels when organizations have achieved sustained good financial results or, regardless of this circumstance, when employees' purchasing power has been severely affected by inflationary pressures.

As a general rule, it can be stated that the stronger the unions' bargaining power within the business, the stronger their capability to affect employers' method of pay determination (Armstrong, 2010).

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PART TWO

Fixed Reward

Section X
Rating and ranking jobs

Definition and scope of JE

One of the most, arguably the most, important issue organizations have to cope with in terms of reward is to establish the most adequate and appropriate rate of pay for each member of staff. Although more recently employers are mainly focused on designing and developing suitable and consistent variable pay and incentives schemes, an appropriate and systematic approach to basic pay determination is clearly important too, not least to avoid possible disputes and discrimination claims.

Job evaluation, enabling reward managers to assess the worth, size and significance of the jobs performed within an organization, is the method of pay determination which can help employers to successfully cope with pay and all of the issues associated with its correct, or rather, most appropriate identification (Longo, 2011). This approach is essentially based on the assessment of each job carried out within a business in order to establish the relevance and significance of each of these and place them in a hierarchical order accordingly.

Job evaluation definitely represents a consistent and structured approach (ACAS, 2005) by means of which jobs are usually ranked according to the degree of responsibility, knowledge, assertiveness, experience and expertise these require in order to be properly and effectively carried out.

The British Standards Institution (BSI) defines job evaluation (definition 32529) as "any method ranking the relative worth of jobs which can then be used for a remuneration system." We are hence essentially looking at a comparative approach (Edgel, 2010), very much concerned with internal relativities which are thus benchmark-determined.

Once each job has been placed in a fair and consistent grading structure, not only can employers develop an equitable grade and pay system, but can also effectively make comparisons with the market rates for similar, even though complex, jobs. Last but not least, the established link between salary range and grade on the one hand and type and importance of the job performed on the other hand will also clearly enable employers to meet equal pay requirements and avoid gender pay discrimination. It is in fact particularly important taking into due consideration that compensation's equity also falls amongst the matters object of legal protection (UK: Equal Pay Act 1970, amended in 1984 – USA: Equal Pay Act 1963, amended in 2003).

Fairness, transparency and objectivity should hence represent the founding pillars on which job evaluation has to be based and consequently carried out within an organization. Human capital budged will thus be divided amongst staff, or rather, amongst the job holders according to the size and weight of each role and the contribution each job is supposed to make, according its assessment findings, to the attainment of the organization aims and objectives (Longo, 2011).

Determining the right salary for a job holder and trying to find out how much more or how much less this should earn in comparison with the other individuals is actually the conundrum employers are continually called to cope with in order to determine the right pay for each member of staff.

In general, factors coming to play in this circumstance are actually three: performance, market rates and fairness (Torrington et al, 2008). Although the assessment of each of these factors, of its own, will not be sufficient to solve the pay determination riddle, it is most likely that their combined synergetic use would enable employers to attain better results and more reliable outcomes from their salary determination procedures.

Performance is associated with the activity carried out by individuals, it refers to the way these execute a task and to the consequent results their activity produces. Put it another way, performance is not linked to a job or role but to the way it is carried out. Looking at one specific job, results produced by its fulfilment could clearly be different according to the way each individual executes the tasks associated with this. The assessment of an employee performance, hence, when linked to the individual's salary determination process, is linked to each individual knowledge, capabilities, skills, motivation and ultimately capability to produce appreciable results for the organization, but it has nothing to do with the performed job's size and relativity.

As we have seen earlier, gaining a thorough knowledge and understanding of the local (and eventually national and international) labour market rates is certainly of pivotal importance too, but mostly in order to attract and retain individuals. This can basically enable businesses to stay competitive in the labour market and to be aware of and stay in contact with, the external environment and its latest trends and development. Market rates, however, do not necessarily have proper links with the size and scope of jobs and, let alone, with internal relativities. These should hence eventually used with extra care to the extent of the job evaluation exercise.

Applying fairness and equity in salary determination processes clearly represents a crucial factor, not only for its potential legal implications, but also because it enables employers to determine the right pay for people carrying out the same type of job. A thorough investigation of these factors clearly put employers in the position to gain relevant information in order to effectively cope with the issue of salary determination. Notwithstanding, this analysis does not help companies to determine the importance, worthiness and contribution of each job for the achievement of a business objectives. Let alone such an approach can turn to be useful to establish a structured and hierarchical order of jobs or a grading structure, and that is exactly why the assessment of each role, namely by means of the job evaluation exercise, can turn to be particularly useful to provide the basis for a consistent and fair salary structure duly considering the importance and weight of internal relativities (Longo, 2011).

The introduction of Equal Pay legislations has had a remarkable impact on the need to introduce and design job evaluation techniques within organizations; but the introduction of such an approach has revealed to be particularly useful also during organizations restructuring procedures like mergers and acquisitions.

Also in these types of circumstances, nonetheless, employers should be aware of the importance of effectively, openly, clearly and constantly communicate with their staff. As warned by Torrington et al (2008), the inevitable failure of this approach can sorely also depends on the lack of communication. This is what actually happened in 2002 when the local career services of Coventry, Solihull and Warwickshire merged into the Coventry, Solihull and Warwickshire Partnership (CSWP). According to the new payment system devised during the restructuring plan, formed by 18 grades and 66 steps, the majority of employees concerned would have received a higher salary and a pay rise of 3.5 per cent upon acceptance of the deal. Nevertheless, since trade unions officials were unhappy with some details of the new pay terms and conditions proposed by the partnership, they refused to support the vote in favour of the new package. When the package was balloted in 2003 it was therefore overwhelmingly rejected. After two years of negotiations during which senior managers also consulted with staff and gave employees the opportunity to express their views, the new terms and conditions, despite some concessions were made, were finally accepted, mostly thanks to the communication channel opened by the Partnership with its staff.

As it clearly emerges from this example, having recourse to the job evaluation exercise does not entail the suppression of collective bargaining practices with trade unions. This should not actually take anyone by surprise, it just takes to refer to what job evaluation is for, that is, identify gaps between the different levels of salary and not define the salary itself. This point is clearly stressed by the ACAS (2005) which points out that "job evaluation does not determine actual pay", which is and remains a separate activity resting on managers and employers and eventually unions representatives.

Job evaluation, which cannot however be considered as a scientific approach in that it is essentially based on human judgement and appreciation, is not and has not by extension to be intended as:

- A means to allot pay levels and determine annual rises;
- An exercise to use in order to make decisions on variable components of reward, such as bonuses and incentives (Torrington et al., 2008);

- An approach concerned with the determination of the volume of work each job requires;
- A tool helping employers to rightsizing departments or units within an organization (ACAS, 2005);
- A method helping organizations to plan work scheduling (ACAS, 2005);
- A method to which employers can have recourse to in order to assess job holders' performance (ACAS, 2010).

Probably on account of the increasing relevance and importance reward has acquired within any organization and of the risks of dispute associated with its misuse, the recourse to this technique has reportedly (Thompson and Milsome 2001, IDS 2003, e-reward 2007, CIPD 2004 and 2007) registered during the last decade a steady growing trend in the UK.

All in all, albeit as posited by Edgell (2010) the pace at which organizations develop and the roles within these evolve might pose a threat to the job evaluation exercise existence, it can, at least at the moment, be concluded that it still supportable the dictum according to which "job evaluation is the one management tool that refuses to go out of fashion."

Circumstances under which JE can reveal to be particularly useful

The circumstance that the job evaluation exercise basically aims to rank jobs within an organization, on the basis of their perceived value, in order to devise a consistent and equitable reward system, contributes to consider it as an unquestionably helpful and beneficial tool.

Job evaluation can hence reveal to be a particularly valuable ally of reward professionals either that these are involved in the process of designing and developing new or reviewing existing grade structures. Yet, having recourse to this technique can also help employers to build and gain internal credibility in terms of salary fairness and equity, ultimately making the overall pay system more defensible.

Putting in place a properly and accurately devised grading system within an organization can also enable employers to promptly and relatively easily introduce new salary grades within the existing rank, in case some new types of jobs should be introduced within the business. Additionally, having a structured pay grade system within the firm will surely turn to be useful also when performing external comparisons, making it easier to match internal with external similar jobs and ensure that the grade attributed to each job more widely reflects the importance attached to each of them; even though it should be assumed as a general rule that external benchmarking has to be treated with caution.

Employers over reliant on the indications coming from the external environment and submissively structuring internal relativities on the basis of these, would seriously risk implementing inconsistent and even unfair and unequal grade systems.

Rating and ranking jobs

Amongst the wide implications of the job evaluation exercise, should not be overlooked the legal benefits which employers can attain by using this structured and systematic approach. The recourse to job evaluation in fact can also help organizations to sensibly reduce the number of disputes and grievances based on salary claims (ACAS, 2005).

Employers should pay particular attention to the eventually increasing number of claims lodged by employees on the ground of alleged salary inequalities; this could, in fact, means that their grading structure might no longer be adequate and appropriate. In this case, job evaluation, helping organizations to settle the issue, could also enable employers to re-establish trust and confidence in their pay systems, ultimately increasing trust, motivation and commitment amongst staff.

The list of opportunities and benefits offered by this approach is rather long and overarching. The introduction of a new technological system and the consequent change of the way job is approached and carried out within an organization, which could also imply a rebalancing of the use of physical and mental efforts carried out by staff, very often also require a new review and assessment of the jobs concerned. This definitely is another case in which the job evaluation exercise could reveal to be particularly beneficial to employers.

Job evaluation has to be intended as a valuable approach not only for the employers aiming at introducing consistent and sound grade hierarchies within their businesses, but also for organizations aiming to put existing jobs grade in order. Whenever a certain degree of inconsistency amongst grades should be perceived or too many or too a few grades should be identified within the business, having recourse to the job evaluation exercise can definitely help (ACAS, 2010).

The need for a review of job grading can also sometimes be associated with internal restructuring processes, which may call employers and reward specialists for reviewing the overall grading system in order to ensure that this fits the new emerged circumstances and work organization needs. Not least, job evaluation can also help organizations to tackle and settle organizational issues linked to roles duplication and gaps, which can enable in turn employers to save a lot of money and improve efficiency.

The circumstance that the job evaluation exercise necessary entails scrutinizing all of the jobs carried out within a firm, enables employers to achieve some additional and valuable side benefits, such as enabling managers to be more effective and skilled at redesigning their direct reports jobs and working activities and identifying potential health and safety risks (ACAS, 2010).

As suggested by Armstrong (2006), one of the most remarkable benefits of job evaluation is represented by the circumstance that it can be relatively easily aligned with an organization values system and competency framework, enabling firms to reinforce the values behind these and foster integrity.

Inconveniences of the JE exercise

It can hardly be hypothesized that an approach or a method used to achieve a specific and particularly remarkable feat might be completely bereft of drawbacks or could it have no flip side at all; the job evaluation exercise makes no exception.

One of the most recurrent criticisms addressed to job evaluation is of being inflexible, bureaucratic and out of date. The inconveniences usually associated with the job evaluation exercise are linked to the nature of the approach: "systematic rather than scientific", which account for the system not being completely considered bullet proof in that essentially based on human judgment. This, despite it is usually carried out by experienced and competent professionals (Torrington et al, 2008).

Some Authors also stress the circumstance that job evaluation can lead to grade systems manipulated by the people in charge of their design and implementation, which accounts for the final result being affected by bias and personal judgement with the obvious negative consequences this will produce (Armstrong, 2006).

In order to avoid these side effects, which can influence or even completely spoil the final results produced by the exercise, a felt-fair test can be used, that is, a type of analysis enabling businesses to evaluate the acceptability of the jobs assessment and review made by the reward specialists in charge of the procedure. It is indeed widely acknowledged that the success of job evaluation relies on employee acceptance of the final outcome produced by the exercise.

All of these kinds of criticisms, however, clearly refer to the risks associated with the way job reviews are carried out, but not with the job evaluation idea and the method itself. Misuse and manipulation, unfortunately, are not just typical of job evaluation, many other management tools, in spite of their unquestionable usefulness and effectiveness, may potentially be exposed to and be the object of manipulation.

A different type of criticism has been made by Nielsen (2002), who disparages the circumstance that this technique does not take into consideration the growing relevance of external comparisons and relativities which instead, to his appreciation, is what should matter the most. As appropriately argued by Armstrong (2006), however, in the light of the scope of job evaluation, which is that of ranking jobs in a structured way and not to establish the amount of money which should be paid to job holders, this criticism immediately falls short of meaning.

Another particular and, indeed, expensive-to-settle issue linked to job evaluation is represented by the likely possibility that on completion of the exercise it could emerge that some people within the organization are actually incorrectly paid.

In general, employers could be prompted to deal with two different situations, either individuals are receiving more than they should, or they are receiving less. Whatever the case, emerging issues are typified by the characteristic that the easier the problem is to set, the higher the cost which will be required by the employer to settle the problem. Whether at the end of the job evaluation exercise should emerge that some individuals are underpaid it will be absolutely straightforward to promptly increase their salary accordingly, either immediately or within a given length of time depending on the relevance of the pay increase. The problem is that, for easy it may be doing so, the move will surely turn to be costly for an organization in that it implies an immediate personnel budget increase to which the organization might not, very likely, be prepared. Some budget adjustments will consequently be obviously required.

On the other hand of it, according to the findings of the job evaluation procedure, some employees could result to be overpaid, in this case employers should *red-circling* the job position(s) concerned in their chart. The current job holder will continue to earn that given amount of money, whereas individuals who will occupy that position in the future will receive the correct salary level as identified by means of the exercise.

Notwithstanding, these kinds of occurrences cannot be linked by any means to job evaluation. Should such circumstances emerge in fact these might possibly be due to prior confusion, improper reward management practices or whatever else. The job evaluation exercise, especially in such cases, would rather reveal to be a valuable and effective way to identify and tackle problems and, for financially painful it might be, fix them.

Albeit it should emerge from the exercise that some employees are receiving higher pay than they should, employers could not promptly adjust, that is, reduce these in that it would clearly constitute a breach of their contract of employment (Torrington et al, 2008). They can just either continue to pay the higher level of salary, do not granting to the individuals concerned any further salary increase until the individuals' salary have reached their right level or agree with these employees the payment of a lump sum (in general a fairly large amount of money) in order to legally adjust, that is, reduce their pay level to the correct salary rate identified by means of the job evaluation exercise.

Devising a job evaluation system and developing all of the activities usually associated with it, definitely requires time and resources and very often the length of time between its development and its actual implementation is rather considerable.

Additionally, the effectiveness of any job evaluation exercise has a validity usually not going beyond the mid-term, at best 3 years; so that the system typically requires a relevant degree of maintenance in order to be kept up-to-date.

Edgell (2010) avers that the pace at which organizations change and employers introduce new jobs and roles within their businesses could pose some real threats to the future of this technique, at least as it presently stands. The positive effects produced by this approach compared to the length of time these can be considered valid, might account for considering this technique unwieldy in some circumstances.

The effectiveness of job evaluation might clearly also depends on the size and complexity of an organization. In particular, big corporations, where jobs are changed regularly and technology advances have a relevant impact, could find it difficult to set and, most of all, to maintain such a system; whilst small businesses could find it easier to resort to simpler approaches. But judgement needs to be formed on wider basis according to the circumstances. Bigger corporations, for instance, may have a reward unit within the business which could care about these activities as a matter of course.

Identifying the reasons and the right scheme

All too often jobs are developed and designed within the different functions of a business according to the needs and preferences of each of these rather than in order to help and favour the attainment of the organizational aims and objectives. This is very likely to generate lack of clarity about internal responsibilities, ultimately impinging on the correct unfolding of the business activity and decision-making process. Having recourse to a thorough and accurate job evaluation exercise, enabling everybody within the organization to refer to a mutual and unique model, can help employers to consistently design jobs and roles within the business which effectively back and make it easier the achievement of organizational strategy (Hay Group, 2005). Yet, as appropriately summarized by Hamel (2008), the job evaluation exercise can effectually enable employers to devise "equitable, understandable, legally defensible, and externally competitive" pay systems. Notwithstanding, the decision to carry out such a demanding, time and resource consuming process has in general to be made on grounds of specific business needs. Relevant organizational changes, the existence of a simultaneous combination of different pay structures and equal pay issues just represent a few examples of those needs. Such occurrences should indeed all sound as alarm bells for organizations which, in such and similar circumstances, should seriously consider to promptly take appropriate action.

Decisions concerning whether having recourse to such an approach or otherwise have to be made in the light of what it actually entails introducing and implementing the overall process. A detailed and thorough pre-analysis has hence to be considered as a mandatory prerequisite. Careful consideration should be given to some aspects that can be considered crucial for the success of the overall procedure and in respect of which employers should form an accurate and scrupulous judgment before starting the process. A systematic and structured approach to job evaluation should also be taken during the decision-making process aiming at deciding whether having recourse to this tool or otherwise.

Identifying the most suitable approach to job evaluation

The first decision employers have to make concerns whether carry out the process in autonomy, meaning and recognizing by that that the firm has the required competencies and expertise internally, or having recourse to external consultancies and practitioners.

This clearly depends on the circumstances, however it is important to carefully consider this aspect in the light of the wider implications the exercise has and of the high level of visibility of its final results. Unless employers can count on specialists with a strong specific background, expertise and credibility, it is strongly advisable to avert running the risk of carrying out the process without any form of external guidance and advice. Additionally and not negligible, the circumstance that external reputable consultants and/or practitioners would be involved in the process could help employers to yield the project a higher degree of impartiality and fairness, which might possibly be harder to associate with the procedure whether completely and entirely carried out without any external involvement.

Once this decision has been made, it still remains to determine how to approach the exercise, that is, identify the type of scheme which will be used as a tool to carry out the process. As we will see more in detail later, job evaluation schemes can both be analytical and non-analytical; yet, analytical schemes can further be divided into *home-grown* and *proprietary brands* or *ready-made* schemes.

In the case employers should opt for analytical schemes, it must be considered that both proprietary and bespoke schemes have advantages and disadvantages which should be carefully weighted up by employers before reaching a final conclusion. In the case of proprietary schemes we are looking at proved, experimented and tested schemes which, very often, also enable employers to have access to both salary and grade benchmarks. These kinds of schemes can also typically be promptly made available to organizations, which can buy them *off the shelf*. On the other hand these schemes are in general inflexible and hardly adaptable to an organization's peculiarities and circumstances. However, this general rule is not completely without exception in that some of these *off the shelf* schemes are designed for specific industries or sectors and could hence fully meet employers' specific expectations. Differently, tailored schemes require a good deal of initial efforts, financial efforts included, in order to be craftily devised. These schemes, nevertheless, may reveal to be more effective in that can better embody and conform to the different organization peculiarities and circumstances. In general, *off the shelf* schemes should already be compliant in terms of equal pay legislation, whereas bespoke schemes should be better carefully assessed in order to ensure that these take into due consideration equal pay legislation requirements (Suff and Reilly, 2006).

A third grouping of schemes, which could be considered somewhat of in between *ready-made* and *home-grown* schemes, can indeed be identified. The reference is to the *hybrid* schemes which are basically obtained adapting *proprietary*, *ready-made* schemes developed by consultancies to the employer's specific needs.

Identify the project team

As for the introduction of total reward systems and the development of every type of project, the subsequent step is to clearly identify the team in charge of supervising and monitoring the process; regardless of the circumstance that this will be carried out with or without external advice. Of course, it will also be of paramount importance determining from the outset “who does what”, so that each project team member’s responsibility has to be clearly identified and communicated.

When making decisions about this aspect, where applicable, it has also to be considered whether involving in the project unions and employee representatives. Indeed, unions’ officials and employee representatives’ involvement in the process from the very beginning can increase chances that the pay system obtained at the end of the process will be considered fair and accepted by the entire workforce. If the worst comes to the worst, unions’ participation and contribution to the project should prevent these triggering and opposing restraining forces to the change associated with the final output produced by the exercise.

Project team members have to be identified with finicky care. Particular and careful consideration should be paid in order to avoid that the members of the project team might have some direct interest, pay lip service to the project or that confidential information could leak out during the process (ACAS, 2010).

Project schedule

In order to avoid being caught by undesirable surprise, job evaluation has to be carefully planned and prepared. So that devising an accurate and thorough project plan, including a detailed timescale of the different steps throughout which the project is expected to unfold, is strongly recommended.

Gantt charts represent project managers’ favourite tool to properly and effectively schedule and manage a project in all of its phases and ensure that activities develop as initially planned. Yet, this tool will also enable reward specialists or the evaluating panel, to timely put in place the adjustments required in the event something should stray from the original project plan.

Determine how data will be gathered

Since the aim of job evaluation is to assess each of the jobs existing within an organization in order to determine their internal hierarchy, data collection represents one of the most delicate and sensitive steps of the process; delicacy and sensitivity are hence mandatory. Indeed, this is also one of the project stages requiring the longer period of time to be completed.

The difficulty of this phase basically consists in gathering reliable and consistent information, crucially important for the positive success of the overall exercise, without stirring employees’ touchiness up.

Factual job descriptions usually represent the most reliable basis for reliable investigations (ACAS, 2010). Data can be gathered both by means of questionnaires and face-to-face interviews. Written questionnaires can apparently represent the easiest way to collect data, but individuals may find these not completely clear. By contrast, face-to-face interviews can enable employers to collect more detailed and reliable data. Having recourse to external job analysts in order to these holding interviews and eventually writing factual job descriptions on behalf of the employer could clearly reveal to be the best solution (ACAS, 2010).

Identify the evaluation committee

Once gathered, data concerning the different jobs available within a business will need to be reviewed. In the event the exercise is carried out internally and without any external consultancy involvement, this activity should ideally be performed by a committee or a panel formed by both managers and job holders. In this case it is also advisable to prevent that an assessor could assess his/her own job. Clearly, in the case of unions or employee representatives' involvement, these will be called to be part of the panel too.

Identify the most appropriate communication channels

For the successful implementation of every change employers may aim to introduce within a firm, communication definitely is of paramount importance. Especially when a change can be perceived by individuals as potentially likely to jeopardize their current status or negatively impact on their personal contractual terms and conditions, the risk that restraining forces to change emerge is likely to be very high. In this case, a powerful, effective and appropriate communication process can not only help, but also reveal to be crucially important for the successful implementation of the overall initiative.

Since the implementation of the job evaluation exercise within an existing business is basically concerned with re-grading, it is somewhat of obvious that this might be a cause for concern amongst staff and that individuals might be wary about the overall project and its possible outcome. It is hence necessary that the project team identify, since the very beginning, the most suitable means of communication and its underpinning elements.

As averred by Armstrong (2010), the main decisions that the project panel needs to make, as regards this aspect, relates to what has to be communicated, to whom and how.

What

The first objective of the communication process has to be that of explaining clearly, in simple words and absolutely avoiding jargon, the aim of the exercise. In order to reassure employees, it also needs to be explained that job evaluation is not intended to measure performance and is not based on the evaluation of the individuals filling the different roles, but rather on the assessment of the roles themselves. Information about the outcome of the process, the consequences it may produce and the way this can eventually influence the current grading and salary levels also need to be properly covered by the communications campaign (Armstrong, 2010).

Having recourse to external consultants may be perceived as reassuring by some employees in terms of impartiality, whereas someone else might feel threatened by these on the grounds that external practitioners do not have any specific knowledge of the business and might therefore penalize them. Whether external advisors have to be involved in the process, it is definitely better explaining employees their role, the reason for their involvement (for instance, conferring impartiality to the project) and provide some evidences of their unquestionable expertise on the subject.

To Whom

In practice, the project panel should ensure that all of the individuals working within the organization, regardless of their role and position, will be reached by the communication process or, to put it another way, that everybody receive accurate and thorough, albeit in simple terms, information. Senior executives, managers, unions officials and employees as well have hence all to be invariably reached by the communication campaign put in place by the employer.

How

Since, as we have just seen, everybody within a company has to be made aware and informed about the job evaluation exercise which is about to be carried out within the organization, employers need to have recourse to all the means which can practically enable them to reach every single person within the business. Whether intranet, emails and a dedicated website may, for instance, enable employers to reach "white collar" employees, it is unlikely that such types of means may permit employers to reach "blue-collar" staff. Unit or team briefings, printed newsletters and similar initiatives will hence be absolutely important in order to ensure that everybody within the business receives the necessary information. Face-to-face events can enable employers to answer employees' questions and better reassure staff. The managers and specialists involved in the communication project have to clearly be much more than simply prepared to provide sound answers to all of the possible (and sometimes even impossible) questions.

Job evaluation maintenance checks

Once the new grade system has been identified, this actually needs to constantly be kept under scrutiny and control. It is actually rather difficult to determine a general rule to identify the frequency of a grade system review, in some cases changes may be required just after a very few years, in some other cases there could be no need to implement any amendments at all for several years. It actually depends on the circumstances and more specifically on the frequency changes are introduced within an organization, provided these may have an impact on the internal relativities.

Moving employees at lower or higher grade

As we have seen earlier, findings of the exercise might reveal that some employees currently in a determined grade should be moved up or down to a different level. Employers should be ready to deal with the new situation and decide at the outset whether and how to pay the money due to individuals as a consequence of the differences eventually emerged. Similarly, also decisions about how to deal with the claims submitted by the employees who have resulted to be underpaid before the re-grading procedure should be made beforehand (ACAS, 2010).

Last but not really least, before deciding to embrace the job evaluation exercise, employers should not only be sure that they can afford the expenditure necessary to carry out the exercise, but also that they have the availability of the additional financial resources which might be required to sort the inconsistencies eventually emerged from the findings of the exercise out.

Analytical schemes

As anticipated in the preceding paragraph, there are basically two main categories of job evaluation: analytical and non-analytical. Analytical approaches are widely recognized as requiring a greater length of time in order to be contrived and executed, at the same time, the schemes produced by this type of approaches are those which are harder to manipulate and that can consequently better help employers to eventually defend against equal pay claims (ACAS, 2010). Moreover, analytical job evaluation methods, providing specific reasons for justifying why a job is ranked below or above the others, are considered more objective than non-analytical tools, and this is essentially the main reason why these schemes are usually preferred over non-analytical ones (Suff and Reilly, 2006).

As discussed earlier, job evaluation is an approach aiming to grade jobs in order to determine hierarchies essentially by means of comparing each role with the others. As the same term suggests, however, analytical job evaluation does not involve comparing jobs considering each of them as a whole, but rather splitting, separating and dissecting them into their different components and hence assessing and evaluating each of these separately. Jobs components for the purpose of the job evaluation exercise are usually called factors. In order to jobs be properly and consistently compared, the factors to take into consideration should actually be common to all of the roles investigated.

Many schemes include a weighting mechanism aiming to consider the different extent to which each factor can contribute to the attainment of a job's final score (Suff and Reilly, 2006). According to this weighting mechanism it is hence possible to associate with a given factor a higher value for the particular importance this is supposed to contribute to the role. It must be pointed out, nonetheless, that analytical job evaluation approaches can help employers against equal pay claims as far as these are not designed and developed starting from discriminatory foundations. As stressed by the IDS (2003), jobs factors taken at the basis of the process and the weighting mechanism eventually used to evaluate these, must not therefore be discriminatory by any means.

There are indeed a number of approaches which can be included in the analytical job evaluation grouping: points or point-factor rating, job matching, role-to-grade matching, role-to-role matching, analytical matching and factor comparison.

Points or point-factor rating

This kind of scheme represents the most widely used approach to analytical job evaluation and is essentially based on breaking each job down into its main factors in order to assess each of them separately.

Rating and ranking jobs

Factors taken into consideration by reward specialists usually include (CIPD, 2010):

- ✓ Knowledge and skills,
- ✓ Decision-making,

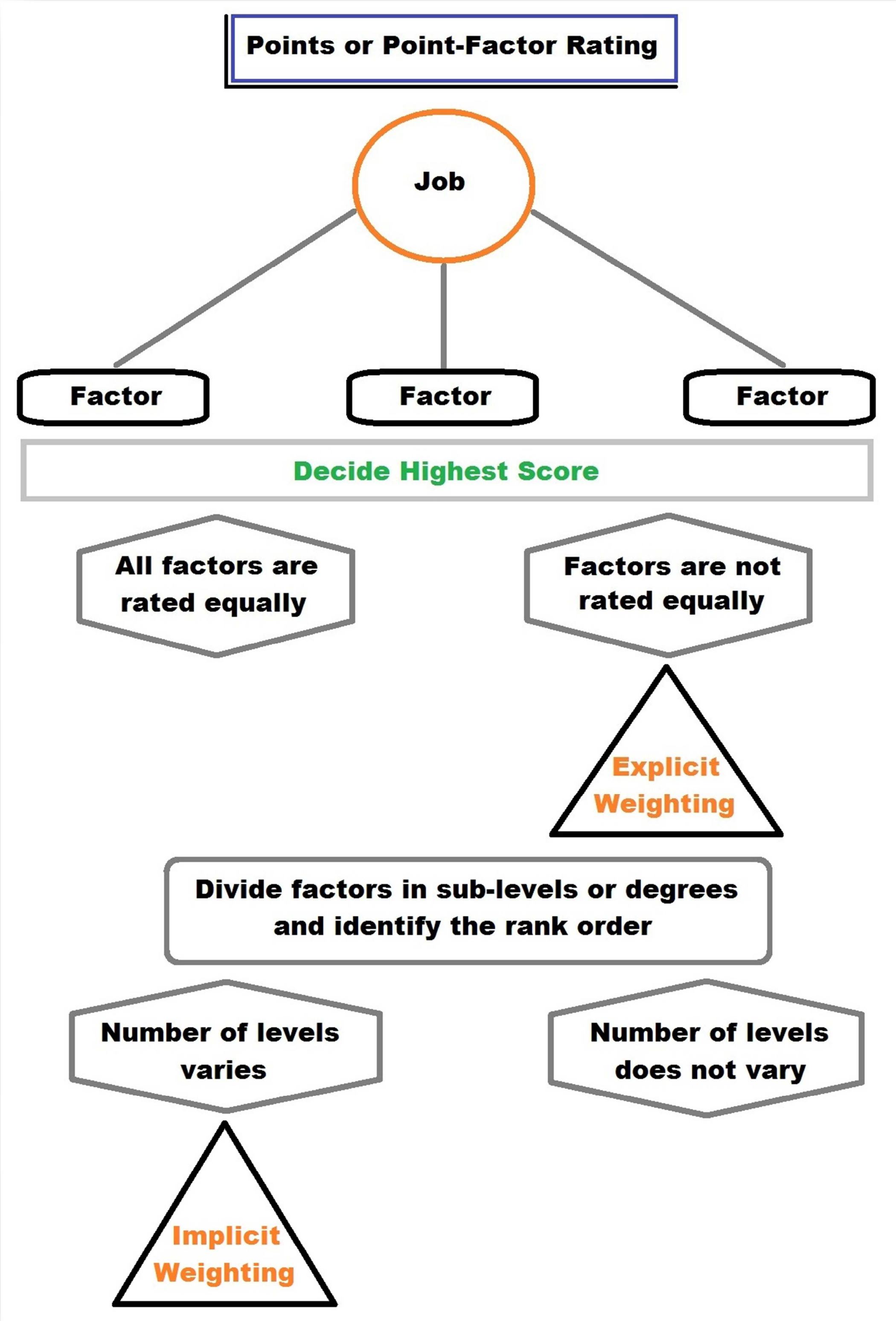

Table 29 – Points point-factor rating

- ✓ Financial responsibility,
- ✓ Impact and influence,
- ✓ Working environment,
- ✓ Communication,
- ✓ Human capital management capabilities.

Some employers might find it useful and even necessary include into the factor plan some additional components more typical of and specific to their industry. The NHS (2004), for instance, amongst the others, also assesses factors such as responsibility for patient/client care and responsibility for clinical and non-clinical research and development. Each factor is thus evaluated and graded autonomously so that the final score recorded by each job will be determined simply by means of the algebraic addition of the single scores or points attributed to each factor. This method has to be applied to all of the jobs existing within a firm. The final scores associated with each role will finally be used to determine internal relativities and jobs hierarchies.

The process is essentially formed by three stages. The first phase consists in identifying each job main characteristics, that is, the different factors, separate these and associate with each of them a maximum number of points or a total score. In those cases in which the total score attributed to each factor is not always the same, which entails that the employer attributes a different importance to the different factors object of evaluation, it is said that an explicit weighting system has been put in place.

When deciding about the factors which have to be taken into consideration for the purpose of the job evaluation exercise, it has to be considered that these have to be deemed so relevant insofar as influencing jobs salaries determination. The identification of the jobs hierarchy is neither intended nor pursued as a per se exercise, but it rather has very important and practical application and implications as well.

Factors identification, therefore, needs to be carried out with meticulous care and attention, not least for the legal consequences an inappropriately and inconsistently devised salary grade can have for the business.

A number of activities should hence imperatively be carried out and some fundamental principles scrupulously respected by evaluators:

- ➢ Factors should first of all be consistent and useful for the aim of the overall process; these needs therefore to be common to all of the assessed roles and enable evaluators to measure and compare them in order to establish a coherent, genuine and objective hierarchy;
- ➢ Panel members have to be careful in order to avoid the possible pitfalls associated with excluding factors which could be typical of the jobs carried out by women, ethnic and/or religious groups or minorities. Whether a particular job characteristic is peculiar to a role, or family of roles, usually carried out by exclusively female or exclusively male individuals, these should be considered too; provided that also the factors typical of the job performed by the other religions,

ethnicities, gender and eventually other minorities, all considered as groupings, are considered as well;

- Favour expertise rather than experience in that, as contended by Armstrong (2010), consideration of factors such as experience are likely to expose employers to age and gender discrimination claims;
- In order to avoid duplication, each factor should be clearly identifiable separately and distinctly from the others. By extension, factors should not be grouped together as a single factor in that this would clearly mean that each of them considered separately would not actually be relevant for the purpose of the process;
- When identifying the factors which have to be considered for the aim of the exercise, the evaluation panel should not really leave out of consideration organizational values and culture. This clearly entails that the business management involved in the process has to be aware and prepared to properly carry out his role also in the light of this specific mission. Reward is definitely a leverage employers can and have to use to foster business values and culture as well as desired behaviour; these aspects need hence to be clearly reflected in the grading system.

Once the relevant factors have been identified, each of these has to be further split into levels, usually 5 and placed in rank order to enable evaluators to "assess how much of each factor is present in a given job" (Hamel, 2008). Each level is basically representing the different degree of importance, from lower to higher, associated by an employer with each factor; points will be hence attributed to each level accordingly. In order to evaluators being able to more objectively and accurately identify the most suitable level or grade, a description will also be provided for each level included in the rank or scale.

Whether the number of levels associated with the different identified factors should vary, it will be said that an implicit weighting system is operating. The maximum score attainable by a factor associated with 5 levels in actual fact will be larger than that achievable by a factor split into, for instance, four levels (Armstrong, 2010).

Deciding into how many levels each factor has to be divided is not always as straightforward as it might apparently seem to be. A valid approach could be that of identifying first of all how many intermediate levels are considered necessary in between the lowest and the highest level, according to the definition provided for these. Yet, each level definition needs to be clear and as such noticeably distinguishable the one from the others.

Another important aspect of the ranking levels activity is concerned with the need to further split each factor into a number of levels which actually meet the different grades of knowledge or capabilities which might be required by the employer for each assessed factor (Armstrong, 2010).

During the final stage of the process, assessors will associate with each factor's level or degree the relative score or number of points. For each factor the sum of the scores attributed to each level or degree has to be clearly equal to the maximum score initially associated with the overall factor. The scale obtained according to the method described thereof can either be based on a geometric or arithmetic progression. Arithmetic progressions are in general used for measuring factors considered particularly important by employers (Armstrong, 2010). It clearly emerges that one of the most important decisions that the job evaluation panel has to make concerns whether weighting the identified factors or otherwise.

In practice, the need for weighting emerges when amongst the evaluators exists the shared or prevailing view that the different factors have a different relevance or, to put it another way, that the different factors are deemed differently important for the jobs object of the evaluation procedure. Realistically speaking, it cannot be taken as axiomatic that evaluators would reach an immediate consensus on this aspect, in order to ease and speed the process up factors assessment is consequently usually carried out by means of a form of survey or poll conducted amongst evaluators.

A predetermined number of points (normally 100) are usually made at each panel member's disposal in order to every one of them to have the possibility to associate with each factor a certain number of points. Once the process has been completed, the different points' distributions will be compared and a factors hierarchy finally identified and agreed. In the unlikely event that all of the evaluators would equally distribute the points available to them amongst the identified factors, no weighting system will be considered. Differently, each factor will be associated with a different total score and number of levels. Since this particular form of poll will be carried out considering the factors which have all been deemed and accepted as important by all of the evaluators, each of them should distribute, albeit differently, these points amongst all the factors. This implies that it should not happen that some of the evaluators could not attribute any point to any of the considered factors; should this happen it would mean that no genuine consent was actually reached during the factors identification process.

Below an example of explicit weighting, considering sub-factors levels scores based on an arithmetic progression scale:

Explicit Weighting					
Factors	**Grades/Levels Points**				
Knowledge and skills	**20**	**40**	**60**	**80**	**100**
Decision-making	**30**	**60**	**90**	**120**	**150**
Financial responsibility	**20**	**40**	**60**	**80**	**100**
Impact and influence	**25**	**50**	**75**	**100**	**125**
Working environment	**20**	**40**	**60**	**80**	**100**
Communication	**15**	**30**	**45**	**60**	**75**
Human capital management	**30**	**60**	**90**	**120**	**150**

Below an example of implicit weighting, considering also in this case sub-factors levels scores based on an arithmetic progression scale:

Implicit Weighting					
Factors	**Grades/Levels Points**				
Knowledge and skills	**20**	**40**	**60**	**80**	**100**
Decision-making	**20**	**40**	**60**	**80**	**100**
Financial responsibility	**20**	**40**	**60**	**80**	**100**
Impact and influence	**20**	**40**	**60**	**80**	
Working environment	**20**	**40**	**60**	**80**	
Communication	**20**	**40**	**60**	**80**	
Human capital management	**20**	**40**	**60**	**80**	**100**

The following example describes an unweighted factor levels plan:

Factors	Grades/Levels Points				
Knowledge and skills	**20**	**40**	**60**	**80**	**100**
Decision-making	**20**	**40**	**60**	**80**	**100**
Financial responsibility	**20**	**40**	**60**	**80**	**100**
Impact and influence	**20**	**40**	**60**	**80**	**100**
Working environment	**20**	**40**	**60**	**80**	**100**
Communication	**20**	**40**	**60**	**80**	**100**
Human capital management	**20**	**40**	**60**	**80**	**100**

Point-factor schemes arguably represent the most demanding type of job evaluation. Albeit they can enable employers to potentially better defend themselves before a judge against the discrimination claims eventually lodged by employees, on the other hand these are difficult to develop, require a lot of resources and, very often, external advise in order to be properly designed (Suff and Reilly, 2006). Additionally, as contended by Armstrong (2010), this approach is essentially based on personal judgment and the activities performed by the job evaluation panel are often very hard to deliver. Bias, contrasting opinions and disagreement amongst the evaluation committee members may account for extended and contentious meetings, whereas achieving genuine consensus and avoiding compromises can sometimes reveal to be very hard. Notwithstanding, this does not entail that this approach is not worth the efforts it requires. Once hierarchies have been developed and introduced within the firm in fact these are likely to be maintained over a long period of time. Moreover, the introduction of new jobs into the grade system should not represent a particular reason for employers concern. In general, only remarkable changes in the organizational structure might actually account for a review of the overall rank scale. Possible drawbacks notwithstanding, this approach is the most likely to be accepted by the majority of the individuals concerned (Hamel, 2008).

Factor plan example

A very good example of factor plan can be taken from the NHS Job Evaluation Handbook (2004). In particular, the example showed below refers to the definitions and levels determination of the "communication and relationship skills" factor.

Communication and relationship skills

Factor definition

This factor measures the skills required to communicate, establish and maintain relationships and gain the cooperation of others. It takes account of the skills required to motivate, negotiate, persuade, make presentations, train others, empathise, communicate unpleasant news sensitively and provide counselling and reassurance. It also takes account of difficulties involved in exercising these skills.

Factor levels

Communication and relationship skills	
Level 1	Providing and receiving routine information orally to assist in undertaking own job.
Level 2	Providing and receiving routine information orally, in writing or electronically to inform work colleagues, patients, clients, carers, the public or other external contacts.
Level 3	(a) Providing and receiving routine information which requires tact or persuasive skills or where there are barriers to understanding. Or (b) Providing and receiving complex or sensitive information. Or (c) Providing advice, instruction or training to groups, where the subject matter is straightforward.
Level 4	(a) Providing and receiving complex, sensitive or contentious information, where persuasive, motivational, negotiating, training, empathic or re-assurance skills are required. This may be because agreement or cooperation is required or because there are barriers to understanding. Or (b) Providing and receiving highly complex information
Level 5	(a) Providing and receiving highly complex, highly sensitive or highly contentious information, where developed persuasive, motivational, negotiating, training, empathic or re-assurance skills are required. This may be because agreement or co-operation is required or because there are barriers to understanding. Or (b) Presenting complex, sensitive or contentious information to a large group of staff or members of the public. Or (c) Providing and receiving complex, sensitive or contentious information, where there are significant barriers to acceptance which need to be overcome using developed interpersonal and communication skills such as would be required when communicating in a hostile, antagonistic or highly emotive atmosphere.
Level 6	Providing and receiving highly complex, highly sensitive or highly contentious information where there are significant barriers to acceptance which need to be overcome using the highest level of interpersonal and communication skills, such as would be required when communicating in a hostile, antagonistic or highly emotive atmosphere.

Factor comparison

Factor comparison represents one of the simplest, arguably the simplest, approach to job evaluation. As the points or point-factor approach it is essentially based on jobs comparison; differently from this, however, comparison is not based on an objective, predetermined scoring system, but rather on the perceived importance associated by evaluators with the identified factors. Albeit consideration is thus essentially still shown for factors, jobs are compared the one with the other without any reference to a structured grading or scoring system, but exclusively relying on assessors' judgment.

As suggested by Suff and Reilly (2006), this approach can actually be carried out having recourse to two different methods: graduated factor comparison and analytical factor comparison. According to the former approach, the factors of the different roles are related one another, on the basis of a grading scale, in order to determine if the factors of a job can be deemed equal, smaller or bigger compared to the same factors of a different job. Analytical factor comparison is instead carried out assessing each job against a pre-arranged scale where each factor is described in a growing level of complexity.

Even though this approach cannot be deemed as particularly effective in order to determine internal relativities, especially when a large number of jobs exists within a firm, it reveals to be much more effective and useful for independent consultants when engaged by a Court to express their advice on equal pay claims. In these cases in fact the consultants task is that of comparing one job with a very few others and not to determine the consistency of an organization overall job hierarchy (Armstrong, 2010).

Job matching

Albeit analytical job matching is based on valuing roles on a factor-assessment basis, in order to determine internal relativities this approach does not rely on a comparative method, but rather on a matching process. Roles can be matched either to grade or the one with the others.

Role to grade

This activity is performed by delivering two different processes, on the one hand roles are analysed on the basis of their main factors, whereas on the other hand grades or levels included on the grading system are defined on the basis of the same factors used to carry out roles evaluation. Roles are finally matched with the different grades in order to attain the most appropriate fit between the requirements of each job and those outlined for each level contained in the grading system.

Role to role

Differently from the role to grade approach, the role to role method tends to match each job factors with a benchmark job profile which has already been graded and as such considered representative or as a point of reference for correctly grading other roles and identify jobs of equal value. There will clearly be as many benchmark roles as the number of grades included in the grading system. In all the cases in which evaluators will identify a consistent and objective fit between the benchmark grade role and the role which needs to be graded, this will be included in the so identified grade.

This method can effectively enable evaluators to more swiftly asses those types of jobs which have many, promptly identifiable factors and characteristics in common, such as supervisory and administrative roles. The two approaches can also be used in conjunction with each other (Armstrong, 2010), somewhat of a double check, to ensure that the identified grade for each job is actually consistent with the overall scheme and that job hierarchy and internal relativities have been consistently and appropriately identified.

Non analytical schemes

Non-analytical job evaluation differs from analytical job evaluation by reason of the circumstance that the former, differently from the latter, does not entail jobs to be broken down into their main components in order to be evaluated and graded. According to this approach each job in actually assessed in its totality or, as it is commonly said, as a "whole-job." For the rest, also non-analytical approaches aim at pursuing the same objectives as analytical schemes and it can be added, having resort to the same type of methodology. Jobs are in fact compared and matched the one with the other in order to determine internal hierarchy and relativities. Also in this case, jobs can be compared on a job-to-job basis or on a job-to-grade basis (Armstrong, 2010).

The most negative distinctive feature of this type of schemes is that being these essentially grounded in an entire-job assessment approach, as opposed to the analytical measurement of a job main components, the final outcome these are likely to produce is, or is prone to be, considered essentially subjective and lacking of scientific methodology and appreciation. Yet, all too often non-analytical schemes tend to practically leave unchanged the current state of play (Suff and Reilly, 2006). This point is further stressed by Watson (2005), who highlights the circumstance that non-analytical schemes are not essentially based on any objective evaluation scale or framework. This also accounts for these approaches being particularly ineffective in order to assess those roles whose classification might reveal to be particularly dubious, uncertain or disputed. These schemes also pose considerable difficulties when a large number of jobs, especially if complex, need to be evaluated. All in all, these are essentially the reasons accounting for these approaches not being considered particularly helpful for employers to self-defend against the pay discrimination claims eventually made by their employees.

The circumstance that according to this approach jobs do not need to be broken down into their main factors, clearly accounts for these being easier and faster to develop and implement. Additionally, as suggested by Armstrong (2010), such schemes can effectively and successfully be used by evaluators in order to test the outcomes attained by means of analytical approaches to job evaluation.

Rating and ranking jobs

Non-analytical job evaluation can be carried out by means of the paired comparison, job ranking, job classification and benchmarking methodologies.

Job ranking

Job ranking represents one of the most straightforward and intuitive approach to job evaluation. Jobs are indeed ordered in a hierarchical rank essentially on the basis of the appreciation of the evaluation panel members for each job object of the exercise. The rank order is thus identified by evaluators on the basis of jobs titles and descriptions and the relative importance that evaluators associate with each of them.

In order to be assessed, roles are not actually broken down into factors and comparison is carried out on a one-against-the-others basis. This simple approach, in theory, should also contribute to make the scheme easier to explain and to more promptly be understood by staff.

Simplicity, however, is not necessary invariably synonymous with acceptance. The final jobs rank is exclusively based on the evaluation panel members' judgment and on what these consider to be a consistent and coherent hierarchy on the basis of their personal appreciation. This does not necessarily entail that the final output of the exercise will be perceived as equitable and fair, and hence accepted, by the individuals concerned. Notwithstanding, as suggested by the ACAS (2005) this approach could reveal to be particularly appropriate when the number of jobs object of evaluation is particularly small.

Paired comparison

Paired comparison can be considered somewhat of a more structured form of the job ranking scheme. The scheme is relatively simple, overall jobs are essentially compared the one with the other, but 0, 1 or 2 points will be allotted to the job object of comparison depending on whether this is considered less, equally or more important than the other. According to this approach, each job is compared with all of the others by turns so that the total score recorded by each role will be used to determine the final job hierarchy.

Albeit this approach can be considered as an enhancement of the job ranking method, it cannot clearly be deemed suitable for large organizations (Suff and Reilly, 2006) and, as warned by the ACAS (2005), its application should be limited to organizations where no more than 30 different jobs exist. This because, even though a jobs' analysis is not actually performed as part of the process, comparing each job with all of the others is a very demanding exercise both in terms of time and resources. For instance, Watson (2005) calculated that in order to assess 50 jobs, a staggering 1,225 comparisons need to be performed.

Job classification

With the only exception that job classification is carried out considering jobs in their entirety rather than on the basis of the analytical measurement of the factors composing them, the job classification approach can be considered rather similar to the *role to grade* analytical matching scheme.

The first stage of the process consists in determining the right number of grades, which will be consequently outlined. A benchmark job is hence identified and assessed for each grade in order to test and validate each job definition. Finally, the remaining jobs are compared and matched with benchmark jobs in order to be included in the relevant grade of the pre-set and pre-identified grading system (Acas, 2005).

Internal benchmarking

Internal benchmarking definitely represents the most spontaneous as well as basic approach to job evaluation. It is essentially based on comparing and matching each job with pre-identified benchmark jobs, which are considered correctly and consistently graded within the business, in order to identify the correct grade in which each job has to be included.

So basic is this approach that, as suggested by Armstrong (2010), it can hardly be considered as a formal approach to job evaluation. Additionally, the circumstance that it exclusively relies on internal benchmark jobs and that no additional types of analysis are carried out in conjunction with this, is very likely to produce the outcome of maintaining unaltered inequalities eventually existing within the business.

Job analysis

The validity and consistency of a job hierarchy is very much depending on the approach used to determine this. The most structured and analytical the process, the more consistent and more legally sound the outcome it will very likely produce. In order an evaluation committee being able to properly perform the tricky task of determining internal relativities, however, it is crucially important, insofar as it can be considered as a mandatory prerequisite, that a thorough and up-to-date analysis of the relevant jobs has previously been carried out. Job analysis, representing a "systematic process to collect and analysing jobs" (Patterson et al, 2010), can hence effectively help the members of the evaluation panel to successful complete their difficult task.

In order to genuinely help evaluators to achieve defensible and consistent results, job analysis, as the same wording suggests, needs first of all to be analytical (Patterson et al, 2010). This entails that essentially the job analysis process has to be carried out according to the same approach adopted in the job evaluation exercise: jobs need to be broken down into their main components or factors rather than being considered in their entirety. The final outcome of the investigation has to be represented by a factual, "documented, structured and thorough report" clearly describing the most important requirements of each role. Additionally, in order to avoid falling into the pitfalls usually associated with equal pay legislation, information should be gathered amongst the whole variety of groupings of individuals working within the organization, considering both ethnic, religious, gender and cultural diversities. All of this will in turn enable the members of the evaluation panel to devise more "accurate and representative" job descriptions (Patterson et al, 2010).

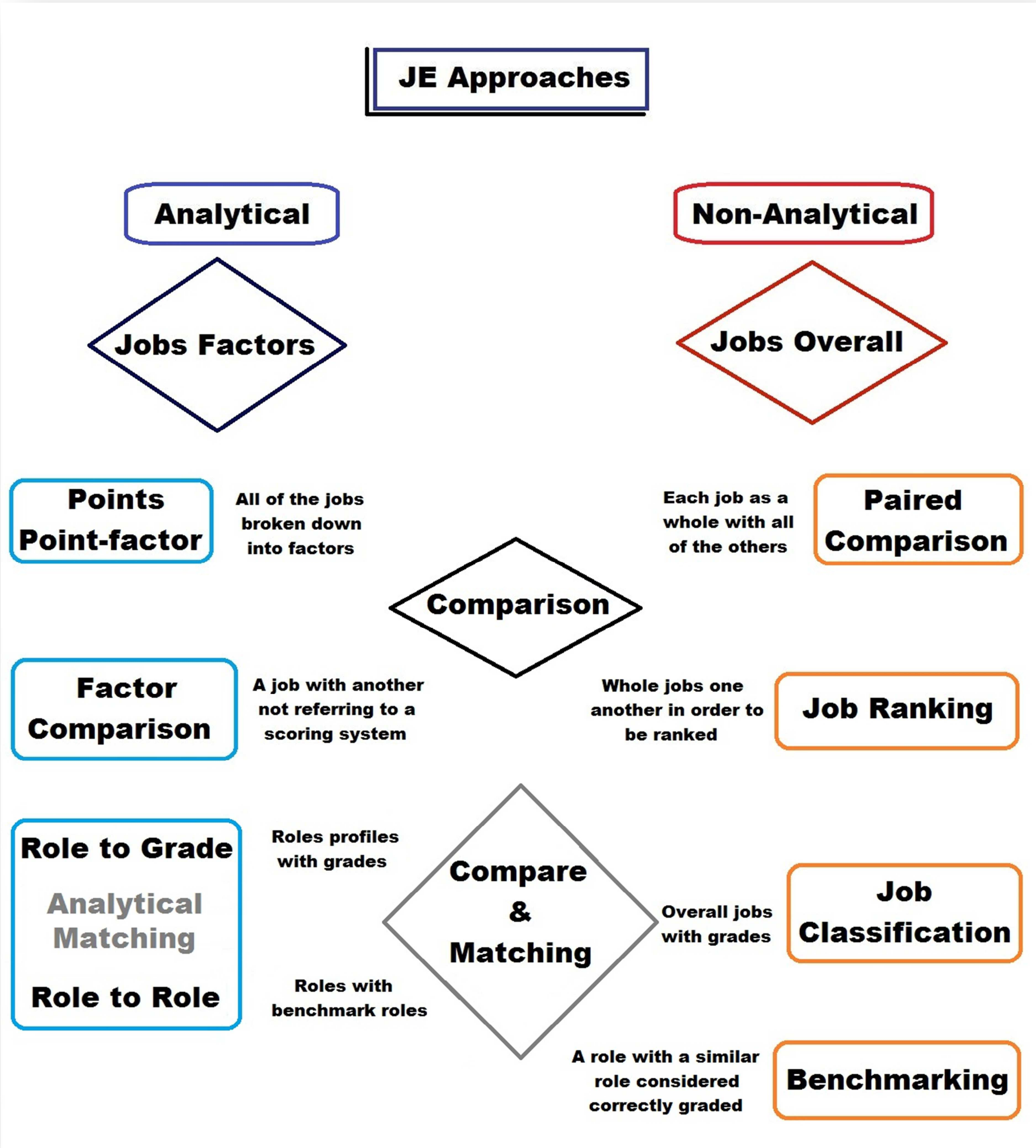

Table 30 – Job evaluation approaches

Rating and ranking jobs

It is crucially important that the process is concerned with thoroughly analysing jobs and not merely listing the tasks associated with them. Moreover, analysis has to be executed based on the current state of play and not on judgment and assumptions about how the role was carried out in the past or the way it should better be executed (Hay Group, 2007).

Albeit jobs descriptions already exist within an organization, for the purpose of the job evaluation exercise, job analysis should be conducted anew in order to avoid the likely risk of reaching the same conclusions which have led to the current state of play and basically confirm the existing job hierarchy.

The success and validity of job analysis is clearly very much resting upon the quality of the information gathered and on the extensiveness of the sources from which data are obtained. There are indeed several ways to collect data relating to jobs but, as suggested by Patterson et al (2010), it should not be adopted an exclusive approach, but rather a multiple methodology to data collection.

The main approaches to which evaluators can have recourse to this end are: direct observation, face-to-face interviews, written questionnaires, diaries kept by workers and activity logs.

Direct observation
In this case information about a job are directly collected and noted by evaluators shadowing individuals and directly observing them in the workplace. In general, this approach is more easily applicable when simple, mainly manual duties are executed by employees (Hamel, 2008). Where applicable, structured checklists can also be used by evaluators (Patterson et al, 2010).

Face-to-face interviews
Interviews should be better based on carefully prearranged, structured questionnaires and should be held with present incumbents of the role and their managers. Questions should basically aim at identifying the essential tasks of the role and the skills and capabilities required to properly perform it (Hemel, 2008).

Written questionnaires
Written questionnaires can be submitted to employees and their managers as an alternative to interviews or as an additional means to gather information in a quicker way. Questionnaires may include both open-ended and closed questions. Since there might not be the presence of an evaluator assisting individuals when filling the form, questions need to be formulated in a clear and simple way.

Diaries kept by employees or activity logs
According to this approach it will be up to the individuals concerned identifying the different activities and tasks carried out during their working activity, also taking note of the length of time devoted to each of these (Hemel, 2008).

Rating and ranking jobs

Job analysis should ultimately enable evaluators to gather information in order to answer the *what*, *how* and *why* questions of each job. The *what* is concerned with the "physical, mental and interactional" requirements of the job; the *how* is associated with the procedures, tools or approaches required to properly perform a job duties; whereas the *why* aims to identify and explain the reasons for the tasks being performed (HR-Exec, 2002). For instance:

- What: prepare contracts of employment,
- How: legally compliant with the current employment legislation,
- Why: to recruit individuals whose contribution is considered important by the employer for the attainment of the organizational objectives.

Job analysis, in terms of reward, can hence be considered as a means to an end. As a structured and systematic approach to detailed job investigation in fact it enables evaluation committee members to describe a job in measureable terms and consequently compare this with the other jobs existing within a business. Jobs can thus be rated and consistent and fair salary grades established (SHL, 2005).

Market pricing

As described earlier in this chapter, the job evaluation exercise is essentially concerned with determining internal relativities and identifying job hierarchies within a business. This approach, however, essentially aims at investigating the organizational environment and hence the internal context. Indeed, the pressure exerted on organizations by the external environment is undeniably remarkable and salary grade architecture is not immune from this strain by any means. Designing and developing a consistent internal rank system actually aims at enabling employers to ensure that the personnel budget is fairly and coherently distributed amongst staff, but reward management can and has to be used by employers also to attract and retain quality staff. In order to attain this objective, reward professionals in-depth knowledge of the labour market rates is clearly crucially important too. The technique most widely acknowledged and most extensively used to investigate labour market rates is known as "market pricing."

Although job evaluation and market pricing should not be considered as two incompatible and inconsistent approaches, especially in the past, they have been seen as antipathetic and used hence the one as a substitute for the other.

Market pricing typically catches organizations' CEO interest in that supposedly enabling businesses to better compete in "the war for talent"; as such it well encapsulates the spirit of competition (Armstrong, 2006). Unquestionably, having an appropriate and thorough knowledge of market rates can put reward specialists in the position to design sound, attractive and more competitive reward packages which, at least in the first instance, might reveal to be effective in order to lure individuals. The same interest has not been traditionally aroused by the job evaluation exercise, which, in contrast, is in general deemed boring and definitely less strategic.

In the 1980s and 1990s job evaluation was rejected by many organizations in that deemed bureaucratic, time-consuming and basically not as effective as expected in a landscape where internal rates and relativities were imposed by the labour market (Nielsen, 2002).

The approach to salary determination dominating in the US in 1990s, as basically opposed to job evaluation, was indeed market pricing. The reason for this employers' penchant could be basically condensed into the statement: "a job is worth what the market says it is worth." Job evaluation, concerned with internal relativities, was hence deemed as a pointless and ineffective exercise and focus and attention were nearly exclusively devoted to external relativities. Yet, market pricing was actually also meant to foster the development of pay systems containing a reduced number of salary bands and grades, the so-called "broad-banded" pay systems (Armstrong, 2006).

It can be averred that job evaluation and market pricing are both essentially intended to enable employers to achieve the same and unique objective, that is, determine in the most effective, consistent, fair and appropriate way their staff's salary. In order to help businesses to achieve this common goal, nonetheless, the two methods follow two different paths: job evaluation investigates the internal environment, thus internal relativities, basically aiming to assess the size and the importance of the different jobs existing within an organization, whereas market pricing is mostly concerned with investigating the external environment or, to put it another way, the salaries that the other employers, very likely competitors operating in the same market, pay to their staff for the same kinds of jobs object of investigation (Longo, 2011a).

Inasmuch as job evaluation has attracted criticism for being judgmental and, as such, not being based on a scientific approach, market pricing does not escape the same criticism. The outcome of market pricing investigations in fact does not enable companies to identify a scientific, single, unique pay rate for each investigated role too. On the contrary, albeit considering a single type of job in a single location, market pricing is likely to produce a number of different salary rates for each investigated job (CIPD, 2010).

The effectiveness and reliability of market pricing very much depends on the way jobs are matched. Mismatching jobs can at best void of any meaning the exercise and at worst produce counterproductive effects in that people in charge of carrying out the exercise could very likely come to completely wrong conclusions, to the detriment of the achievement of the business aims. All too often, inappropriate job matching is the major cause for inaccuracy and even failure in market data collection intended for market pricing-related reasons.

More recently, external comparisons based on "job capsules", rather than on job titles, have revealed to be more reliable and accurate. In order to better match internal with external jobs, these are devised mainly focusing on job responsibilities and challenges.

Job capsules are also quite effective in order to determine internal relativities and, whether designed and developed with accuracy and if the information included in each capsule are wisely and craftily identified and outlined, they can be easily understood both internally and externally, contributing to making it rather straightforward carrying out reliable and successful external comparisons.

As suggested by Armstrong (2006), market pricing can also help organizations to determine internal relativities, although "market driven." In those cases in which internal investigated jobs have been accurately and appropriately matched with external jobs in fact market pricing findings might actually turn to be effective also in order to attain this additional objective. In this case, notwithstanding, mismatching internal and external jobs could make this technique even more unwieldy. Employers deciding to exclusively resort to this kind of approach should be aware that, on doing so, they will basically totally rely on the indications provided by the external environment, that is, the labour market.

Considering that internal relativities should be established also according to the different strategies pursued by an organization, however, it should hardly happen, and eventually just by chance, that in practice job grades defined by means of market pricing could actually properly reflect an organization's strategy and its culture. This risk might possibly be mitigated by resorting to data gathered within exactly the same type of organization, but it is very unlikely that the one-size-fits-all approach could reveal to be appropriate. Albeit in this case there might be some additional chances to match strategies, it would remain virtually impossible matching organizational cultures. Employers should hence take extra care with this aspect when dealing with the exercise (Longo, 2011a).

Market pricing effectiveness is clearly strictly associated with the quality and reliability of the data collected and with the possibility to have access to a large amount of relevant information as well (Armstrong, 2006). External data can be gathered in a variety of ways: participating in "pay clubs", gaining access to specific surveys and also scrutinising newspapers and journals appointments sections. Recruitment agencies and consultancies use to publish annual reports containing precious data about salaries, usually including minimum, average and maximum salary for a wide variety of jobs. Additionally, some of these recruitment agencies also use to frequently send emails out to potential or current clients, in order to propose candidates profiles, clearly showing job titles and annual salaries. Collecting the data included into these types of bulletins and reports can enable reward specialists to gain a reliable insight of the current market rates applied to the relevant sector and area. Yet, some government offices use to publicly make available both private and public sector pay data (for instance in the UK the Income Data Services – IDS, the UK Statistics Authority and the Labour Research Department).

More recently, the most reliable source on the basis of which market pricing exercises are carried out has revealed to be the "specific market rate pay data." These data are collected by means of bespoke surveys carried out for well identified purposes and with reference to specific areas. These kinds of surveys usually produce more detailed and trustworthy information in comparison with those providing data relating to more extensive geographical zones.

Once the external investigation has been completed, an accurate internal activity, indeed the most important, has to still be carried out within the organization. Collected data need to be interpreted and hence decisions need to be made for each position in order to determine where, in relation to the market salary band identified, an organization wants to position its pay level. It is clearly at this stage that an organization's reward strategy comes to play. Decisions need, therefore, to be made accordingly.

This internal analysis has to be carried out taking extra care with equal pay regulations too. Whether the market, in general, is not paying any particular attention to equal pay legislation, submissively accepting externally collected data could easily cause employers to fall in the trap of breaching equal pay legislation.

Job evaluation and market pricing approaches are not mutually exclusive; they both aim to achieve the same objective, but following a different route. Used together and in combination they can really enable companies to design and develop strong, sound and defensible pay system structures.

Job evaluation basically enables employers to assess the importance of each job within the organization, avoiding jobs duplications and gaps, and to implement a salary structure compliant with equal pay legislation.

Market pricing on the other hand investigating the relevant labour market (local, national or international), essentially enables companies to attract and retain employees. The information collected enables firms to identify the most suitable salary bands for each kind of job and, consequently, decide in which point within the band positioning themselves.

These clearly represent two complementary techniques which coupled together complete one another and enable firms to develop effective pay structures. Preliminarily carrying out a job evaluation can enable employers to appropriately and unambiguously match jobs (CIPD, 2010) and subsequently more effectively and consistently perform a market pricing investigation.

The CIPD (2010) identifies some "tensions" between the two approaches in that the results emerged from job evaluation could reveal to be in contrast with the findings of market pricing. The combination of the two techniques has actually the scope to determine the importance of a role within an organization and ensure that job-holders receive a salary level which is appropriate and adequate to the current market rates. More in particular, the identification of any gaps has to lead to the implementation of the required amendments to the pay system, in order to bridge substantial differences and enable employers to attract and retain staff. Ultimately, is not a matter of tensions, but rather a matter of somewhat of a synergetic approach, where the contribution of the one tool further supports and reinforces the effectiveness of the other.

As suggested by Armstrong (2006), provided that job evaluation has previously been performed, market pricing represents a very valuable tool enabling businesses to "reconcile the different messages provided by job evaluation and market rate surveys." In those cases in which market rates should reveal to be higher than the rates developed as a result of the internal exercise, organizations will find it useful, or even necessary, to include a market supplement in order to attract and retain individuals. To prevent and eventually overcome the risks associated with equal pay claims, these salary additions (that is the market supplements) should be objectively justified and supported by adequate evidence in order to eventually prove that these are based and have been granted exclusively on the grounds of competitive-rates-related reasons (Armstrong, 2006).

Favoured by the organizations need to meet equal pay legislation requirements, during the last decade, the number of organizations resorting to job evaluation has steadily increased in the UK. Findings of several studies revealed that not only the trend is continually creeping up, but also that it is destined to grow further in the incoming years. In particular, research has revealed that job evaluation is the more and more used in public sector organizations, namely by local authorities and the NHS. It also emerged that once organizations have resort to job evaluation just a very few of these decide to abandon the approach.

Market pricing, like job evaluation, is an exercise requiring regular review and maintenance in order to ensure that a company pay system invariably meets the continually changing business needs (CIPD, 2005) and consistently supports the overall business strategy and culture, both in terms of objectives achievement and of fostering the desired behaviour.

Job levelling

Job levelling, also known as titling, similarly to job evaluation, essentially aims to determine internal relatives and job hierarchies in order to establish fair and consistent salary grades within an organization. The concept was developed back in 1956 by Elliot Jaques who suggested adopting time span as the method to determine the different levels of work (Jaques, 1961, 1964). More specifically, Jaques canvassed the idea that salary levels should be determined on the basis of the length of time necessary to carry out the longest-running assignment typical of each job (Kleiner, 2001).

Levelling is essentially based on identifying the different levels of jobs, and eventually the different grades within a job family (Career Architecture), by means of a process aiming at pinpointing and outlining "a clear set of standardized requirements." These requirements will hence be used to clearly establish career paths and to explain how to progress from one level to the following one (Chen and Rosenstein, 2009).

Rating and ranking jobs

In practice, the process is executed by means of a prearranged framework based on a number of different criteria or factors which can be, and habitually are, essentially the same as those used for designing and developing the job evaluation exercise. The identified model can be applied to the overall business, regardless of the different functions and units existing within it. However, according to the circumstances, the different needs and, more in general, whenever different kinds of competencies are required to more properly and effectively outline the different types of jobs object of assessment, different frameworks can be developed for the different functions existing within the same organization. In this case, each scheme will be designed and developed with respect to each function or unit peculiarities and taking into consideration the skills and competencies which mostly influence the performance associated with the execution of a specific category of jobs.

Job levelling schemes should be consistent and coherent with the jobs profiles associated with the different levels identified, in order to the former expressing the degree and level of responsibility associated with the job and the latter describing the job requirements in terms of tasks and skills (Chen and Rosenstein, 2009). Once the process has been completed, employers will be able to determine whether the salary rates they are offering to their employees are higher or lower than those offered in the relevant labour market by the other organizations.

As it is the case for the job evaluation exercise, in order to prevent the likely pitfall associated with equal pay legislation, evaluators should also ensure that individuals carrying out jobs of the same level are equally paid regardless of any gender, ethnicity, religion, and sexual orientation difference.

As contended by Armstrong (2010), job levelling whether only applied to compensation can essentially be deemed "as no more than another name for job evaluation." Indeed, this tool can reveal to be particularly useful for other important reasons and even considering it relevant for reward-related applications only, when the way an organization evaluates internal jobs diverges from the way equivalent jobs are valued in the external environment (Hay Group, 2013).

As seen earlier, job evaluation enables employers to determine internal relativities and hence to attain internal pay fairness, whereas market pricing aims at establishing pay rates competitiveness in the light of what happens in the external environment. Job levelling can indeed enable employers to achieve better results by means of taking and combining together the best features of the two approaches.

The objectives pursued by the two methods are equally, crucially important, but it should not be overlooked that, in the case employers should pay to individuals salaries well above the market rates associated with their roles, the business will be practically wasting money. By contrast, in the case an organization should pay lower rates than those prevailing in the labour market for jobs of equal value, employers would inadvertently seriously jeopardize their capability to attract and retain quality staff (Hay Group, 2013). This circumstance may also account for generating a sense of dissatisfaction and disengagement amongst the individuals who are aware of the existence of these differences. Job levelling, as an approach based on both job evaluation and market pricing best features, can enable employers to actually design and develop sound and consistent financial reward systems.

The approach can either be based on a single or on a combination of different factors. In the case of the Birkbeck University of London (Hay Group, 2007), for instance, job levelling led to a scale formed by ten levels. For each level an outline of the roles included in the level or grade is provided and a summary of the "representative tasks or activities" is also included. The job levelling process is, however, essentially based on three factors: knowledge, skills and experience.

Job levelling is recently revealing to be particularly effective and suitable for multinational corporations or more in general for companies with a rather global-wide expansion, in order to these achieve extensive pay consistency across all of the interested regions. Global levelling can therefore be defined as a structured and systematic approach enabling employers to establish a common equity, both in terms of roles and pay, across all of the relevant areas.

Nevertheless, not necessarily all of the different roles existing within an organization can be object of job levelling or anyhow not all to the same extent. At multinational corporation level, for example, supporting roles are habitually unlikely to be included in global talent management initiatives; in contrast, executive roles are usually all involved without any particular limitation (Bonsels, 2009).

As mentioned above, the job levelling exercise utility is not just limited to reward management applications; whether properly designed and executed, it can indeed enable employers not only to introduce fair, legally sound and defensible salary structures, but also to attain a number of additional priceless benefits.

Among the most compelling reasons for embracing this approach can clearly be identified:

- The creation of broad talent management practices better aligned with organizational strategy, objectives and culture;
- The introduction and implementation of consistent and effective internal and international talent mobility programmes;
- The prevention of resource dissipation by eliminating overcomplicated and exceedingly onerous administrative burdens, which will in turn contribute to improve the personnel budget management and increase the quality of an employer value proposition;
- The introduction and implementation of more sophisticated and thorough Enterprise Resource Planning (ERP) structures and systems (adapted from Bonsels, 2009).

Unsurprisingly, the combined achievement of these objectives typically enables employers to attain better overall levels of performance. Yet, the process can also be used as an effective means to review and amend existing reward management practices and talent management strategies, even though apparently considered appropriate to the current circumstances.

The concept and aims of job levelling from its first Elliot Jaques' formulation have clearly remarkably changed and evolved over time. From a tool enabling employers to define levels of work in terms of time span, it has progressed to a structured process whose benefits are now definitely wider and overarching; ranging from talent to reward management and from cost and risk management to governance (Towers Watson, 2011).

In addition to enabling businesses to better manage their reward and talent management practices, this method can effectively help employers to:

- Better administer and oversee workforce planning;
- More promptly identify learning and development needs;
- Develop clearer, more factual and consistent career management and succession planning programmes.

One of the most valuable benefits associated with job levelling implementation is represented by the opportunity it offers employers to develop clear, transparent, flexible and adaptable career maps which are easy to communicate and explain to staff; which is actually extremely useful and important for employees too.

A career map can be described as "a predefined framework with a series of career bands and levels that increase in complexity and responsibility, representing career progression opportunities" (Towers Watson, 2011). A career map therefore provides and outlines, in a clear and comprehensible language, the criteria, requirements and capabilities necessary to progress from a level to the following one according to the pre-identified factors on which it is essentially built and developed. The shift from traditional numerical "points" to an outline of roles based on words clearly contributes to make these schemes more accessible to employees and help them to better identify and understand what the employer is expected from an individual in order to offer him/her a career progression (Charman and Blackwell, 2012).

Each existing role is associated with a career band and level, whereas each level is associated with a job family and describes how all of the jobs included in the scheme contribute to organizational effectiveness (Towers Watson, 2011). As such, career maps can be tailored and adapted to the changing organizational needs and provide employers a clear and structured vision of the jobs which are or can be needed for the correct unfolding of the business activity; all of this can in turn enable employers to better plan and identify workforce requirements.

It is particularly important to highlight that the way this approach has recently evolved has also led to a significant shift in focus from jobs to roles. More in particular, roles tend to be graded and outlined on the basis of their requirements in terms of responsibility rather than merely on the basis of the tasks which need to be performed. This ultimately accounts for having less jobs and a reduced number of roles categories and families, contributing in turn to make the overall framework more sustainable and less likely to require substantial changes over time (Charman and Blackwell, 2012).

Professional/Expert Band						
	Entry	Intermediate	Career	Specialist	Master	Expert
Business Expertise	Applies general understanding on how the team integrates with others in accomplishing business objectives	Understands key business drivers; uses business acumen and understanding of how the team integrates with others to accomplish objectives	Has in-depth knowledge of best practices and how own are integrates with sub-function; aware of completion and the factors that differentiate them in the market	Interprets internal/external business challenges and recommends best practices to improve products, processes or services	Anticipates business and regulatory issues; uses comprehensive understanding of how discipline contributes to achieving business objectives, recommends product, process or service improvements	Influences internal/external business and/or regulatory issues that have an impact on the business
	No supervisory responsibility Accountable for developing technical contribution					
Problem Solving	Uses to solve existing procedures to solve routine or standard problems; analyses information and standard practices to make judgment					
Impact	Has limited impact on own work team; work with standardized procedures					

Career map levelling criteria sample – Towers Watson, 2011

Job levelling is unquestionably an approach which definitely deserves the attention of reward managers. In addition to potentially offering the benefits of both job evaluation and market pricing in fact it can enable employers to attain further and far reaching objectives. Benefits, as we have seen, range from reward to metrics and analytics management. All of that accounts for this approach being likely to attract the keen interest of a growing number of employers, HR professionals and reward specialists as well.

As it is the case for the job evaluation exercise, employers can approach this method either having resort to home-grown or proprietary brands, ready-made schemes; albeit it is much more likely that in the latter case schemes will surely need to be customized and adapted to the different specific circumstances (becoming as such hence hybrid).

Rohn and Haas and Hay Group – Building a better methodology

A joint Rohm and Haas and Hay Group project team launched a pilot to develop a structured process for making consistent, defensible and efficient job-levelling decisions through a decentralized, business-credible process.

It began by identifying and analysing a representative set of approximately 200 benchmark jobs. Benchmark roles were well understood multi-incumbent positions across grades, functions, businesses and countries which compensation leaders felt were perfectly comparable with the roles and jobs typically included in external surveys. The benchmarks were then validated within each region and function—measured against similar jobs, in order to ensure that the company was building correct and consistent career ladders and opportunities across geographies.

Once the benchmark jobs were identified, the team developed job classification criteria to be used in job levelling situations where there was no applicable benchmark comparison. These included knowledge and skill requirements, job complexity and decision-making and were built around the Hay Guide Chart Profile Method of Job Evaluation, which includes the following:

- Know how: the sum total of applied knowledge to do the job, such as technical depth and breadth, managerial complexity and human relations skills.
- Problem-solving: the application of know-how to identify, analyse and find solutions for business problems.
- Accountability: the expected achievement of end results, such as freedom to act, impact and magnitude (typically financial).

Source: Hay Group New Zealand

Market forces

Whereas the job evaluation exercise represents an effective and useful approach to assess internal relativities and enable employers to identify a consistent and fair level of pay for each role existing within the organization, market pricing is widely acknowledged as an effective method to determine and finalize internal pay systems on the basis of the influence exerted by the exogenous environment, that is, the labour market.

Indeed, there are two additional approaches employers can have recourse to in order to develop more efficient, consistent and competitive pay systems. One of them is actually concerned with the internal environment and aims to achieve fairness, namely the felt-fair test, whilst the other is concerned with the external environment and is mainly directed at attracting and retaining particularly talented professionals when specific circumstances occur, that is, market forces.

The impact of market forces is actually typically taken into consideration, for technical and professional roles, when employers find it particularly difficult filling some specific types of jobs.

Since market forces are actually concerned with the external environment, it could be argued that the data gathered by means of recent and well devised market pricing investigations should already provide reward professionals the information they require in order to gain a thorough knowledge and understanding of the current labour market trends. However, whereas market pricing is an approach used to determine internal pay rates taking into account external reward trends in normal circumstances, market forces aim to reflect the impact that exceptional circumstances might have on reward with reference to both the specific moment and role. Essentially, the former approach represents the general rule, the method reward specialists use, or rather, should use as a matter of course, whereas the latter represents the exception, an approach to which employers resort to when particular and exceptional circumstances arise (Longo, 2012). Yet, market forces consideration and application requires a deeper knowledge and understanding of the current labour market conditions. Whilst the data collected by means of market pricing could be affected by the widespread pay discrimination practices eventually existing within the market, the impact of these should be identified and eventually removed when considering offering to an individual a market forces supplement.

The impact of market forces on reward packages identification is practically represented by the recognition, to the individual concerned, of a cash supplement in addition to the standard pay associated with the relevant role or grade. This sum of money, which is also known as market supplement, has to be granted as long as the exceptional circumstances justifying its payment persist.

Why paying market forces supplements

Strictly speaking, market forces premiums can be granted to one or more individuals with the intent to attract or retain this or these when exceptional, uncommon circumstances arise. The existence of these exceptional, unusual situations have to essentially account for making it impossible for an employer attracting and/or retaining individuals with a particular background and expertise by only paying them the standard salary associated with the grade that role or position falls in.

It is particularly important highlighting the circumstance that, as in the case of job evaluation, also in the case of market forces what matters is not the person in question whereas the role in question. The offer of a salary supplement has not been therefore justified on the grounds of who is filling the role, but rather on the basis of the difficulties that a particular role is causing the employer in order to properly be filled. Of course, the decision to offer the position to an individual, rather than to another, will be taken by the employer according to the outcome produced by the selection process and hence on the basis of the person specifications and skills (Longo, 2012).

The reasons for a business resorting to market forces supplements are, and should be limited, to attract and retain talented and particularly skilled individuals when the labour market is showing crystal clear signs that this result is everything but straightforward to attain for an organization by applying the standard rates of pay.

Before considering paying market forces supplements employers should previously try the usual recruitment and selection procedures. As a general, but crucially important, rule employers should therefore seriously consider resorting to market forces additions only after having ascertained that the usual procedure has turned to be ineffective and unproductive (Longo, 2012).

When paying market forces premiums

Market forces supplements are essentially used to increase the total salary to be paid to particularly skilled individuals when labour market pressures, usually as a consequence of qualified applicants' shortage, are pushing salary rates for a determined role up. Such occurrence will surely account for the "going rate" associated with the role in question to sensibly increase (Equality Human Rights Commission, 2012). In such case, whether an employer should refuse to take into consideration the indications coming from the labour market, it would clearly risk remaining with that particular role or position vacant or, alternatively and even worse, filling it with the wrong person.

The salary addition can and has to be granted to the relevant person as long the following two conditions coexist:
a) The person is covering that specific role and
b) The exogenous pressure coming from the labour market justifies its payment.

This clearly entails that whether the individual concerned should change his/her role within the organization, this will no longer be entitled to receive the additional market forces element.

This also implies that reward managers should regularly monitor, review and assess the existence of the exceptional circumstances on the grounds of which the additional payment has originally been granted. In the event these should no longer be considered existent and justified, the employer will need to promptly take action accordingly removing the supplement.

Regular reviews are important not only in order to make decisions about the market forces supplement withdrawal, but also in order to take appropriate decisions on whether updating, by increasing or decreasing, the amount initially agreed according to the eventually changed circumstances.

How market forces supplements have to be paid
Since having recourse to the payment of market forces additions can be considered justified only when particular reasons to pay above-the-grade salary level occurs, it would be really pointless and definitely counterproductive for an organization offering market forces elements on a permanent basis as part of an individual fixed salary.

Whether the existence of the exceptional circumstances has been ascertained, it would be a massive blunder do not keeping separated the payment of this element from the usual pay rate, giving evidence of this in the salary slip. As a rule, market forces additions have to be hence considered as a separate supplement paid on a temporary basis, irrespective of how long this transitional period may last.

As anticipated above, in order to decide whether this supplement has to be maintained or modified, the market forces element has to be subject to regular review. An assessment should also be scheduled a very few months before the expiration of the initial period of payment agreed. The length of this period clearly depends on the different circumstances. Nonetheless, also in order to have the possibility to promptly implement the eventually necessary pay amendments, the total sum agreed, as it usually happens in practice, should better be paid on a monthly basis.

The payment of market forces elements is usually renewed, at the conclusion of the initially agreed period, when two main factors basically still persist: the presence in the labour market of a higher-than-the-internal-grade level of pay for the relevant position and a clear and demonstrable difficulty for the employer to retain or attract individuals with the skills and expertise required to properly and effectively fill the position concerned by paying the standard rates.

Such a review should be conducted reasonably in advance, but not too in advance, vis-à-vis the expiration of the payment period agreed. In case the assessment should reveal that the circumstances on the basis of which the supplement has been granted do no longer exist, it will be thus possible giving to the individual concerned a reasonable notice. Notice has to be given either in the case that the market forces supplement will be removed or reduced or, more in general, modified (Longo, 2012).

Legal aspects

National governments, by means of their legislative power, can in many cases exert a certain influence over reward management practices and market forces supplements payment clearly represents one of those cases.

Equal pay and pay equity legislations, where introduced, respectively providing for employers paying the same salary for the same jobs and jobs of equal value, clearly limit employers' latitude and capacity to differently reward individuals. In general, draconian job evaluation exercises can properly and effectively help employers to be compliant with equal pay and equal value legislation. It cannot necessarily be said the same when market forces supplements are paid, these can be in fact offered only in presence of the right circumstances, that is, of exceptional circumstances.

In order to eventually properly and effectively support the grounds on the basis of which market forces additions have been granted to one or more individuals before a Court, employers need to gather and keep all the documentary evidence they can. From a legal viewpoint, the payment of market forces practically represents a case in which employers pay unequal salary for work of equal value on grounds of recruitment or retention-related issues. Providing evidence to the Court that before conceding an individual the salary supplement careful consideration to the issue had actually been given and that all of the possible options had been investigated and eventually tried, will clearly show to the Court that the market forces supplement has not been used by the employer as an excuse or a sham justification, but rather as a last resort (Equality Human Rights Commission, 2012).

In the event an employer who has offered market forces supplements to some of its staff should be brought before a Court on the basis of pay discrimination claims, this should not clearly develop and conduct his defence on the grounds of what happens in the labour market, which could actually be affected by discriminatory practices. Employers should neither base their defence on the basis of the principle "this is what other businesses pay", they should rather provide evidence that the additional element was necessary and determinant in order to attract or retain that particular individual, by reason of his/her qualities, for that particular role (Equality Human Rights Commission, 2012).

Courts, at least in the UK, openly recognise the effects played by labour market forces over pay. During the proceedings relating to the case Newcastle Upon Tyne NHS Hospitals Trust v Armstrong & Ors, Mr. Underhill (2010), Judge of the UKEAT (UK Employment Appeal Tribunal), referring to Rainey v Greater Glasgow Health Board case, maintained that "it is well-established that a … defence based on market forces is admissible in principle." The same viewpoint was practically expressed by the European Court of Justice when examining the case Enderby v Frenchay Health Authority, brought before it by the Court of Appeal of England and Wales. The ECJ basically maintained that the proportion of pay increases attributable to market forces can be accepted provided that "the pay differential is objectively justified to the extent of that proportion." The ECJ also upheld that it is the national Court which has to assess whether and for which proportion salary differences can be attributable to market forces (Longo, 2012).

This court case clearly highlights the circumstance that when a higher-than-the-standard-grade salary level is granted to an individual on account of market forces, it also needs to be determined whether the labour market pressures justify the whole additional payment. In other words, whenever market forces supplements are conceded they have to be proportionate to the recruitment difficulties and cannot be higher than reasonably suggested by the pressures coming from the labour market.

It is hence admissible that, in presence of exceptional, uncommon circumstances, jobs of equal value could be paid differently by means of market forces supplements payment. Nonetheless, employers should be extremely careful and ready to show and provide documentary evidence, if and when required, of the objective grounds justifying the application of market forces supplements. As anticipated above, this will clearly reveal to be crucial in the event a pay discrimination claim should be brought before a Court.

Prior to concede a market forces supplement, employers should always strive to recruit and retain quality staff offering salaries encompassed in the salary range associated with the relevant job grade. Only once all of the attempts made have revealed to be unproductive, employers should consider offering market forces supplements. Difficulties in attracting and retaining quality staff have to be verifiable, as well as the attempts to having had recourse to possibly improved recruitment and retention approaches (Longo, 2012).

The circumstance that the supplement is regularly assessed and reviewed will also turn to be eventually useful in front of a Court. This will contribute to provide evidence that market forces defence is not an excuse used to justify salary differences, but that it is actually a consequence of the labour market pressures, and that this is actually why the labour market is constantly monitored and the supplement regularly assessed and reviewed.

An additional important aspect, also emerged in the Enderby v Frenchay Health Authority case, is that employers should always be able to keep separate the salary related to the job grade and that associated with the market forces in order to eventually enable the Court to determine the impact of the latter over the former.

Checklist

Employers offering market forces supplements should both ensure that some activities will regularly be carried out and that some other aspects constantly monitored.

The market forces element should be kept separated from fixed pay and clear evidence of this should be given in the salary slip of the individual(s) concerned.

All of the documentary evidence which have accounted for an employer having decided to resort to the payment of market forces supplements has to be gathered and maintained. Proofs have to be relevant and proportionate to the additional sum granted to the person concerned or to put it another way, these should be able to support the grounds for which the entire supplement has been paid and not just being able to justify part of it.

Evidence will include documentation of the recruitment process failure, eventually tried also by means of external recruitment consultants, agencies and specialists, as well as documentation of the findings of the regular assessment and review of the conditions which have accounted for granting the supplement. Whether the exceptional circumstances persist, the addition will continue to be paid; differently it has to proportionally be reduced or completely removed according to the current conditions.

Finally, as a good rule of risk management, cases for market forces payment should be prepared according to two main characteristics, more in particular these should be both specific and measurable.

Reliability and validity of job evaluation

Job evaluation, irrespective of the approach used to design it, clearly is a demanding process and its outcome may be prone to attract criticism and to be subject to a wide range of drawbacks, giving sometimes rise to serious problems within the organization. As contended by Armstrong and Cummins (2008), however, these undesirable effects are usually caused by the bad execution of the scheme rather than by its inappropriate design.

Evaluators should invariably carry out some forms of tests, checks and control of the final version of the scheme they develop before its communication, introduction and practical implementation. More specifically, these should always find the way to assess, before considering definitively concluded their work, the reliability and validity of the scheme they have designed.

Jon evaluation reliability

Assessing the reliability of job evaluation results is everything but straightforward and may require reward managers to have recourse to extra resources, provided that employers are willing to make these available.

The most effective way to assess the outcome produced by job evaluation is to submit the final rank emerged from the exercise to a panel formed by different evaluators who have not originally been involved in the process. Whether these should associate the same jobs with the same grade, on the basis of the same information, the system could be deemed sorely reliable.

For demanding this process clearly is, it should not be neglected that on the other hand it can enable:

- Evaluators to identify misleading and confused factor plans descriptions and inappropriate, incomplete or incorrect job information;
- Employers to determine the expertise and capability of the evaluators in charge of performing the exercise (Armstrong and Cummins, 2008). Albeit, in case of diverging results, it will not be easy for an employer identify which of the two teams has actually drawn the wrong conclusion.

Job evaluation validity

In general, a scheme can be deemed as valid when it is perceived as fair by employees and can proof to be legally sound. Evaluators should hence demonstrate not only to be capable to identify the right and most appropriate score to associate with each job, but also to be able to consistently and appropriately pinpoint and outline the reasons and arguments leading to the identification of a determined score rather than another (Arvey, 1986).

The methods mostly frequently used to assess the validity of the outcome produced by job evaluation are called: criterion-related, content and construct validity.

The criterion-related approach is mainly aiming at determining whether it has been attained a satisfactory level of consistency between internal relativities and the external labour market data.

In the case of a scheme devised by means of an analytical approach, the content validity methodology aims at determining whether the correct and relevant factors have actually been identified, whereas in a non-analytical scheme, this method aims at identifying whether the right benchmark jobs have been correctly identified and consistently graded.

The construct validity approach aims at ensuring the validity of the overall system by means of determining if the final result of the process is actually coherent with the pre-set aims and objectives. In order to assess a scheme validity by means of this approach, a double evaluation process, based on two different methods, should be carried out (Armstrong and Cummins, 2008).

For different reasons, however, none of these approaches can actually be deemed as completely fail-safe: the ascertained existence of a good degree of consistency between internal hierarchies and external rates in actual fact does not insure employers against the risk of equal pay claims. Similarly, having identified that right jobs factors does not necessary entails that the final ranking will be correct, whereas carrying out two different processes to establish validity would turn to be exceedingly demanding and hardly realistic to be implemented in practice. These are basically the reasons why evaluators prefer having recourse to an additional form of validity test called felt-fair test.

Felt-fair test

The concept of felt-fair pay was developed by Elliot Jaques (1961, 1964) during an investigation on pay inequalities he was invited to carry out into the British firm Glacier, on invitation of the organization’s trade unions officials. Jaques spent approximately a year and a half asking to the factory’s employees what their opinion about pay inequalities was. Unexpectedly, he found out that all of the organization employees practically shared the same idea about the value and worthiness of the jobs performed within the factory. Albeit he had realized that there was a widespread consent amongst the employees about the value and worth of the different jobs, it was not immediately obvious on which grounds this clear and shared perception was actually based. The riddle was later suddenly solved thanks to three employees who told him that differences in salary were in some ways associated with time: “floor operators were paid by the hour, junior officers by the week, managers by the month and executives by the year” (Kleiner, 2001). Two years later, Jaques developed the concept of time span or “by when” concept according to which the longer the length of time – time span – required to carry out the duties typical of a role, the larger the amount of pay to be earned, perceived as fair – hence felt fair – by individuals.

In addition to the time span of discretion, Jaques (1961) also considered crucially important defining the potential capabilities of individuals, so that his model is essentially based on matching together three variables: the time-span of discretion associated with the work (W), the individual capacity for work or time-span of capacity (C) and pay (P).

The findings of Jaques research revealed that individuals develop an unconscious, but surprisingly extensively shared perception and idea about jobs worthiness and the related pay value and are consequently able to determine and assess, on the basis of this perception, whether the salary they receive can be deemed as fair or otherwise. Salary structures and pay levels should ultimately be designed and developed, therefore, in a way which is perceived and felt as fair by individuals.

In order to avoid giving rise to individual perception of salary inequalities, the pay received (PR) by an individual should fall within the pay norm (PN); that is PR=PN. Whereas a differential should emerge and the level of pay received should be perceived by individuals as lower vis-à-vis the pay norm, PR<PN, even though capabilities should be perceived as matching capacity, C=W, this will lead to a perceived pay inequity, namely C=W>P; which means that capacity and work performed are superior to pay.

This clearly is the case of underpayment. Individuals will draw the same conclusions also in the opposite case that is in the case the pay they receive is higher than that considered as the pay norm: $PR>PN$ and hence $C=W<P$; capacity and work are in this case inferior to the salary received and inequity derives from overpayment.

Jaques (1961) suggested that inequality leading to the sensation of being underpaid arises when individuals feel to be paid at least 5 per cent less than the pay norm and that individuals seriously take actions to change job when this rate rises up to a 20 per cent differential.

The felt-fair test idea was developed from the Jaques broader concept of felt-fair pay or, as appropriately suggested by Armstrong and Cummins (2008), the concept has “been hijacked” by job evaluators on the basis of the generic assumption that whether the established hierarchy of jobs is perceived as fair it is hence fair. It is of paramount importance, however, identify on the basis of the perceptions of whom a pay system has to be felt and considered fair.

Risher (1989) canvassed the idea that “the only measure of system validity is management’s assessment”, meaning by that that whether the established job hierarchy is perceived by the business management as fitting the company’s structure, compensation strategy and career map, it is by extension fair. This concept clearly totally neglects the main tenet on the basis of which a reward management strategy should be built up and developed: that is, aligning organizational objectives with individual objectives. The circumstance that a pay system is perceived as fair by the business management might mean little or nothing for employees, insofar as supporting the validity of pay system exclusively on the basis of this could reveal to be particularly detrimental to a business. As appropriately averred by Armstrong and Cummins (2008) in fact not only individuals develop their own idea and perception about jobs value, but they tend to refuse at best and to repel at worst systems leading to results sensibly swerving from their perception.

Research on the practical application of the approach proposed by Jaques is rather contradictory: findings of a study carried out by Hughes (2009) “provides limited support for Jaques theory”; by contrast, an investigation carried out in Finland and Latvia by Carraher and Carraher (2004) reached a different conclusion: it “appears that Jaques' proposition does accurately predict different degrees of satisfaction with pay levels.”

Regardless of the methodology and approach adopted to test the validity, sustainability and fairness of a salary structure, what can definitely be considered undisputable is that it cannot be believed that this important form of judgment could exclusively rest with a business management. A wider employee involvement definitely represents the ideal solution; the worse comes to the worst, this activity has been carried out involving from the very beginning trade unions officials and employee representatives. This can effectively contribute to make the final output produced by the project team accepted by the entire company’s staff.

Planning a series of initiatives aiming at giving the chance to the components of the evaluation panel to meet with employees in order to explain them the methodology adopted to develop the scheme and devise the final rank can clearly definitely help too. During the unfolding of such initiatives, where union officials and employee representatives will clearly be invited to participate as members of the evaluation panel, favouring a genuinely open two-way communication process is paramount. This represents the most effective way to test, before the scheme is introduced and implemented, the feelings it can produce, the way it is likely to be perceived by employees at large and the reactions it may cause amongst individuals.

To develop and introduce fair pay systems which meet individuals fairness expectations, employers also need to duly take into consideration the influence exerted by the external environment, namely the labour market rates. These data can be collected by employers in several ways, albeit gathering consistent and reliable data is not always as straightforward as it may seem. Initiatives aiming at carrying out employees' felt-fair test can also definitely represent a very good opportunity for the project team to clarify the divergences eventually existing between what employees consider pay norm and what the project team has identified as external labour market norm for each assessed role.

This process might also require additional time and resources, but it is definitely well-worth the efforts. Not only can it enable the evaluation panel members to timely make some useful and constructive amendments to the overall scheme, but it can also contribute to ensure that the moment the scheme is introduced, it is not perceived as an unexpected surprise by all of the individuals concerned. Whether employees have been involved in the scheme development from the outset, these will have the chance to eventually manifest their disagreement about the aspects these do not consider appropriate so that some adjustments could eventually be timely and promptly implemented on the basis of employees' feedback. This approach practically ensures companies to receive employees' acceptance of the scheme before its official disclosure and introduction.

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Section XI
Designing a pay system

Developing the architecture of a pay system

Job evaluation and market pricing, when used in combination the one with the other, enable reward managers and specialists to effectively identify internal hierarchies consistent with the trends characterizing the external labour market. Indeed, once this activity has been completed, all of the assessed jobs need to be ordered and ranked in a structured fashion in order to build a framework up which essentially represents the spine and architecture of an organization base pay structure.

This undertaking is basically concerned with converting into practice the output produced by the job evaluation exercise. The final base pay architecture emerging from this activity is essentially intended to identify and systematically arrange the pay structure grades and levels which best fit the organizational needs as well as the salary ranges included within these. As such, a pay structure will contribute to provide employees clear ideas about: internal relativities, the salary associated with each grade and the information on how salary increases can be obtained.

Reward managers can essentially arrange basic salary grades in two ways:

- Each assessed job has its own score and is associated with a grade, meaning by that that there will be as many grades as jobs,
- Jobs of equal value are grouped and included into the same grade or level (Hamel, 2008).

The choice amongst the two approaches has not to essentially be based on the number of jobs which need to be included in the base pay architecture, but rather on the value and characteristics of the roles existing within an organization. The circumstance that only a few roles exist within the business does not necessary entail that these have to give rise to a corresponding number of grades. Base salary has to be identified according to the value of each job and this is actually the objective which the job evaluation exercise aims at pursuing. Notwithstanding, in small organizations, start-up companies and in some specific types of business, like retailers and manufacturers, employers might find it more appropriate identifying a grade for each job. In such circumstances, as it will be discussed later in this chapter, employers might indeed find it more appropriate having recourse to spot rates, spot salaries or pay rates.

As suggested by Hamel (2008), reward managers need to pay careful attention when determining the correct number of grades which have to be included into the overall salary structure. In general, the number of grades depends on the range of the salaries identified within the overall business. The larger the ranges of salaries, the smaller the number of grades which will be very likely required. More in particular, reward managers have to be aware of the circumstance that, whether the salary ranges they identify should be exceedingly narrow, salary increases could be granted only by means of career advancements, that is by means of progression to the next pay grade.

Pay levels or grades

Pay grades are developed when jobs deemed of broadly equal or equivalent value are grouped together. The tenet at the basis of this assumption is that all of the roles included within a grade, being considered of equal value, have to be rewarded equally; however, it is very common and widespread the practice to include within each grade a pay range which includes a lowest, a mid and a highest point.

The benefits of grouping jobs of equal value into grades are wide-ranging and are not just limited to ease the burden associated with payroll administration, averting that employers might have as many pay rates as roles. One of the most distinctive advantages of using this approach is represented by the increased level of flexibility this enables employers to attain. Employees in fact could be called by the business management to perform duties slightly different from those they usually perform without the need to make any change in their pay rates and grades. Moreover, the circumstance that jobs of the same value are included into the same group will surely also contribute to increase individual perception of the pay system fairness (Hamel, 2008).

Pay ranges

Pay range can be defined as the pay “continuum” of a grade (Hamel, 2008). As discussed above, each range has an upper, a lower ad a mid-point also known as reference point. The highest level of salary included into a grade, that is, the range’s upper point, reveals to be particularly effective for employers in order to attract experienced staff from the external environment and offer them a competitive pay rate. This extent of flexibility enables at the same time employers to properly reward internal staff who have gained a good level of expertise.

Single Status

Particularly in the past, employers were used to have recourse to two separate pay structures within the same business: one for the “white collars” and a different one for the “blue collars” employees. More recently, employers tend to avoid such a distinction so that, with the exception of executives and directors to whom usually a different pay system is applied, a unique scheme is usually designed and used for both manual and administrative staff.

This trend was actually introduced in the public sector in 1997, when a Single Status national agreement was signed in the UK between trade unions and employers in order to harmonize the terms and conditions of administrative, professional, technical and clerical (APT&C) staff with those of employees carrying out manual work. More in particular, before 1997 two different books were existing in the UK: the national APT&C book (Purple Book) and the Manual Handbook (whose colour was varying regionally). In 1997, the merging in one single book of those pre-existing books led to the institution of a single handbook known as the *Green Book: The national agreement on pay and conditions*. A Single Status Project was hence established within each local authority and regular reports about progress made within organizations in delivering the single status prepared thereafter by each Audit and Assurance Committee in order to monitor the project results. Albeit this trend originated in the public sector industry, it subsequently spread across the private sector industry as well. This method, however, does not clearly represent a British exclusive prerogative and is fairly widespread across the globe.

Architecture guidelines

Reward managers involved in the tricky and important task of developing the architecture of a pay system need to be particularly careful and focused on some specific issues.

The most important tenets to which pay schemes have to be inspired are fairness and equity. As discussed in Section IX, neglecting this aspect can have overarching negative consequences both at legal and individual performance level. Pay schemes need hence to be first of all fair in order to be considered defensible and legally sound.

Fair and consistent pay structures enable in turn employers to more transparently communicate staff the opportunities they offer to employees in terms of both development and career progression. Introducing a fair and consistently graded pay system should thus be considered by employers as an opportunity to illustrate and clarify staff the business career map; that is, what skills and knowledge are objectively required by the employer and how, according to the attainment of individuals' achievements, these can be rewarded accordingly.

Another important factor on the basis of which a pay structure needs to be developed is definitely represented by flexibility. Job evaluation, market pricing and job or roles levelling, used either in isolation or in combination, definitely are time and resources consuming processes so that reward managers need to be particularly carefully and wise when designing the final structures in order to ensure that these will actually pay off. One of the things which has to be avoided at any cost is devising inflexible and rigid systems which cannot subsequently be adapted and differently streamlined according to the eventually changing circumstances. The influence exerted both by the exogenous environment, for instance by the labour market pressures, and the endogenous context, such as the emergent need for introducing new types of jobs or implementing substantial changes in the existing ones, all account for scheme flexibility being an essential feature of these schemes. The main risks associated with the development of rigid and inflexible structures being that whenever the contextual circumstances should vary the process should be carried out anew.

The fact that both the internal and external contexts can influence pay systems entails that these have to be constantly monitored and that maintenance checks have to be planned and regularly carried out. This, just in order to avoid that a scheme may reveal to no longer be valid and appropriate to the circumstances, without employers even being aware about this aspect.

Reward practices and policies, by means of the pay structures introduced and implemented within the concerns, can enable employers to foster and endorse consistency and integrity within a firm. Pay systems need consequently to be aligned to organizational culture and strategy in order to influence and encourage employee desired behaviour and help employers to attain their intended objectives.

Another important requirement of an effective and sound pay structure is that roles have to be graded correctly and consistently with the business needs. Introducing a given grade system just because it has revealed to be successful in other organizational settings would definitely represent a massive blunder; one size in fact does not fit all.

Moreover, what reward managers and professionals have necessarily to avert is designing and introducing structures which may favour, or be prone to favour, grade drifts and that employees could be placed in a higher grade than appropriate without any justification and objective reasons exclusively associated with their knowledge, skills and competency (Armstrong, 2010).

In general, pay structures can be differentiated either according to the number of levels or grades included into the structure or the range or width of each grade or level (CIPD, 2013). The most widely known pay structures are: narrow-graded, broad-graded, broad-banded, career and job-families, pay spines or a combination of these.

Narrow-graded pay systems

Narrow-graded structures practical application has seen a continuous declining trend over the last years. This type of scheme tends to be mainly replaced by systems characterized by a reduced number of grades or with grades whose range or spam have a wider width.

The main reason for employers abandoning this approach is represented by the circumstance that this kind of scheme is typified by a high number of grades, normally no less than ten, whose width is rather limited and restricted or as the same self-explanatory term used to name this approach suggests: narrow. So limited is the width of the grades or levels included in this type of structures that employees habitually reach the highest level of a pay grade rather quickly. As such, the need for further pay increases necessary entails a grade progression, which all too often is not justified by the circumstance that the individual has actually extended his/her capabilities, skills or knowledge.

This method is still mainly and rather largely used in the public sector, where progression is usually based on length of service (CIPD, 2013a).

According to this approach, jobs of equal value are slotted into the same grade of a pay structure according to the findings of the job evaluation exercise. Determining the width of each grade or the grades' range is therefore one of the first issues that have to be dealt with by reward specialists when designing this type of pay structures. This phase is actually important in that being it basically associated with defining the grades' width, it identifies and determines the room for manoeuvre let to managers when deciding about salary increases. As suggested by Armstrong (2010), the main features of a pay range, with which reward specialists need to be acquainted in order to streamline them in the most suitable way according to the circumstances, are: span, reference point, differentials and overlap.

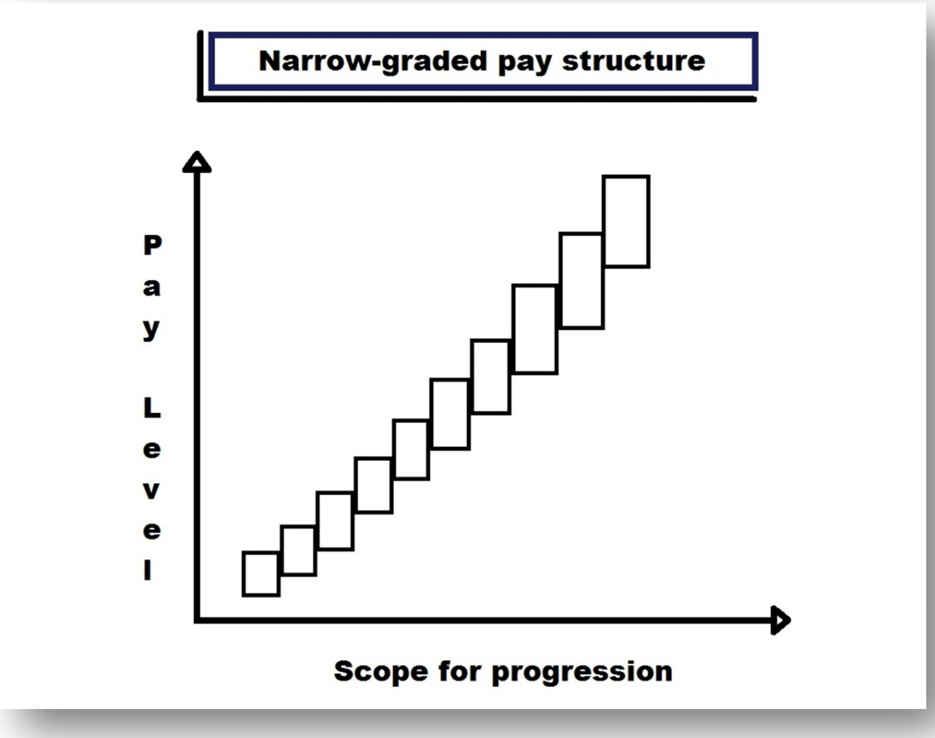

Table 31 – Narrow-graded pay structure

Grade span

A grade span is used to determine, by means of a percentage value, of how much the highest level of salary included into a grade exceeds the lowest level of pay included into the same salary grade. This value typically ranges from 20 per cent to 50 per cent; a span of 40 per cent, with the lowest salary set at £30,000, will therefore be £30,000 to £42,000.

Rather than as a percentage of the lowest pay level included into a band or range, span can also be expressed as a percentage of a salary grade mid-point; the mid-point being the level of salary situated at exactly the centre of the pay grade. Assuming the lowest salary as the 85 per cent of the mid-point and the highest salary as the 115 per cent of the mid-point, range hence 85 per cent to 115 per cent, and that the band mid-point salary is £36,000, the minimum and maximum band salaries will respectively be £30,600 (85 per cent of £36,000) and £41,400 (115 per cent of £36,000). This span, considering the highest salary as a percentage of the lowest, will approximately be of 35 per cent.

Reference point
In order to control pay progression and associate the pay levels included into a grade or band with employees achievement, a reference point for each grade should better be invariably identified.

The pay reference point is usually associated with the salary which should be received by individuals who have attained an appreciable level of expertise and can hence be considered absolutely competent and qualified for the role. It usually coincides with a grade mid-point salary and should reflect an organization policy rate in that determined in the light of the company policy and the influence exerted by the external labour market (Armstrong, 2010).

Differentials
The term differential refers to the percentage value by which the mid-point or reference point of a grade is higher than the mid-point of the lower grade. This percentage value is usually between 15 per cent and 20 per cent. This rate needs to be large enough to enable employers to properly reward individuals for filling a role entailing a higher degree of responsibility and accountability (CIPD, 2013b). However, reward managers should also consider that whether the differential rate should be too high, a manager decision to grant a band or grade advancement could lead to a disproportionate increase in salary vis-à-vis the corresponding increase in accountability (Armstrong, 2010).

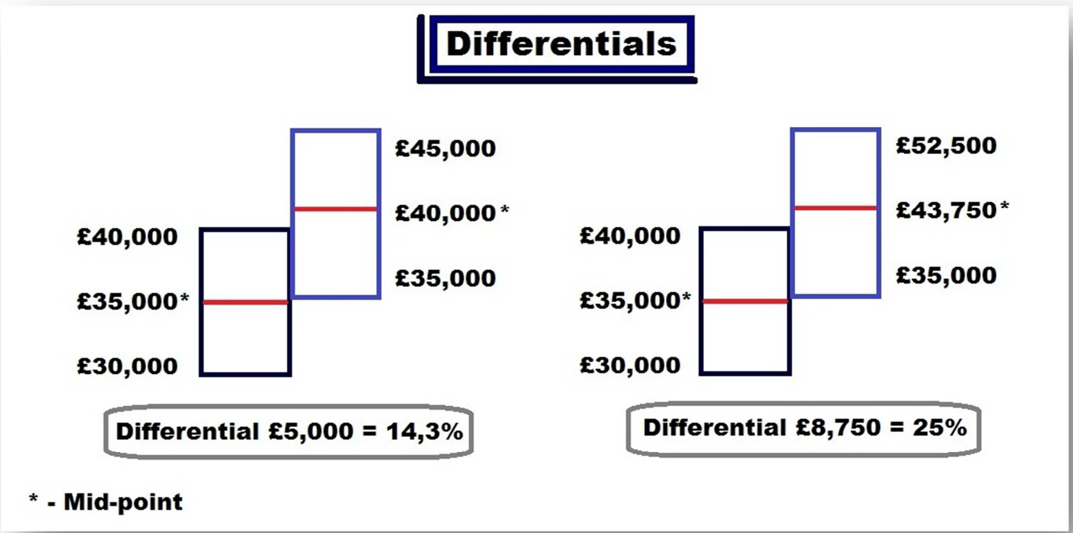

Table 32 – Differentials

Overlap

It is fairly common that the pay bands existing within a pay structure overlap each other. This is actually a way by means of which employers can acknowledge the important contribution made by fully competent and qualified individuals whose salaries are placed in the highest level of a lower grade vis-à-vis the contribution of, for instance, individuals whose role has been included in the higher grade, but who are still in the learning phase or more in general are not yet considered fully competent and assertive in their role.

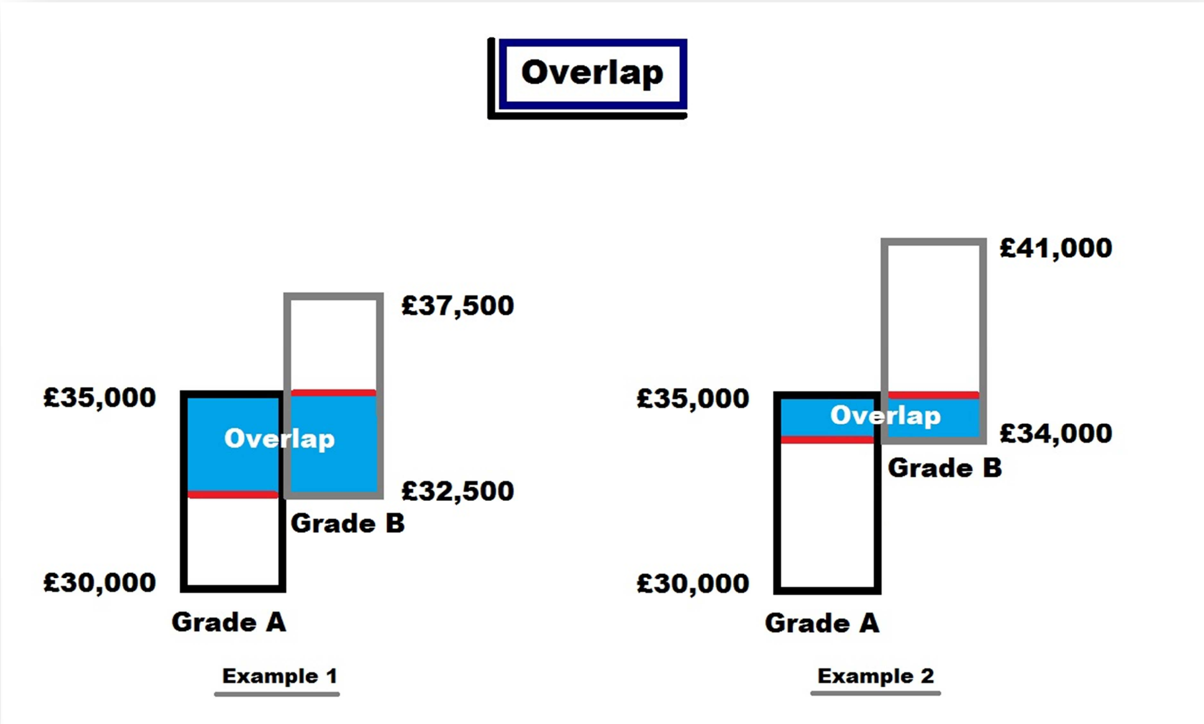

Table 33 – Overlap

The overlap is thus represented by the range of salary shared by two adjacent grades or by the range of salary that these have in common. In the example 1 of table 33, the overlap between Grade A and Grade B is of £2,500 and is identified in the range between £32,500 and £35,000.

As for the case of differentials, overlaps can also be expressed by means of a percentage rate. The formula is expressed by the ratio of the difference between the highest salary of the lower level and the lowest salary of the higher grade to the difference of the highest and lowest salary rate of the lower grade. The product of this has to be finally multiplied by 100.

In the example 1 of table 33, we will have:

$$\frac{35{,}000 - 32{,}500}{35{,}000 - 30{,}000} \times 100 = 50\ \%$$

In this case the overlap is hence of 50 per cent, whereas the differential between the mid-points of the two grades is 7.70 per cent. In such a case, reward specialists may decide to differently manage grades increasing the differential. This result can be attained by raising the lowest and highest salaries included into the higher band and decreasing thus the overlap between the two adjacent grades. In the example 2 the overlap has been reduced to 20 per cent, lowest and highest salary of Grade B respectively increased to £34,000 and £41,000 and the differential increased to 10.3 per cent.

Providing overlaps to employers room for manoeuvre and hence flexibility when managing pay, these should invariably as well as carefully be considered by reward managers when developing pay structures.

Narrow-graded structures have both advantages and disadvantages which need to be carefully weighted up from the outset by reward managers and employers before introducing or amend these arrangements. First and foremost, employers should try to find out whether this approach is consistent with both organizational culture and strategy and whether this could practically help them to attain their intended objectives. On the one hand narrow-graded schemes are rather simple to explain and by means of these employees can have a clear picture of their potential career ladder. Yet, being formed by 10 or more grades this kind of pay structure enables employers to better define the different levels of accountability existing amongst the different grades. However, this latest aspect also represents the flip side of the scheme. All too often in fact salary increases have to be coupled with unjustified career advancements. Especially when the extension of pay ranges is too limited, in order to offer pay rises to individuals, managers also are somewhat of obligated to grant them a grade increase. Such occurrences, which might openly contradict the tenets on which organizational culture and the same pay structure are underpinned, may jeopardize organizational climate and organizational integrity as well. The negative remarkable impact this can potentially produce over the unfolding of the daily business activity is glaringly obvious.

The introduction of schemes having a particularly large number of grades also appears to be in open contrast with the latest organizational general trends according to which hierarchies tend to be flattened and by and large people experience tends to be extended by means of the offering of horizontal rather than vertical opportunities for development and growth (Armstrong, 2010).

Broad-graded pay systems

The main characteristics of broad-graded pay structures can more effectively be explained referring to the main differences existing between these and narrow-graded structures.

Broad-graded schemes essentially differ from narrow-graded structures for two reasons linked to:

- ✓ The number of grades, which is lower than that of narrow-graded structures;

- ✓ The extension of grades or range width, which is instead wider vis-à-vis that typical of narrow-graded structures.

On the one hand, therefore, broad-graded structures have a reduced number of grades, typically between six and nine, compared to narrow-graded systems, which is to some extent balanced by the wider range of these systems grades, which enables managers to better control career advancement and keep these separated and apart from pay increases.

These structures result hence simpler to manage and to explain to staff and represent a more effective tool for managing base pay in that help employers to avert managers granting unjustified career advancements to staff whereas still enabling them to offer individuals salary increases.

Albeit putting in place pay systems where grades are consistently and fairly identified is definitely crucially important, when designing pay structures reward managers' focus and consideration cannot clearly be limited to the career progression side; the financial aspect needs indeed to be properly considered too. In other words, inasmuch as avoiding unjustified career advancements is important, it also is avoiding pay drifts. The circumstance that grades' range is wider in fact could make it easier for managers offering pay increases which could go unnoticed, something which nonetheless should be definitely averted. Albeit broad-banded structures are essentially managed the same way as narrow-graded systems are, for these particular schemes reward managers and professionals should better introduce an alert or warning system in order to avoid that unjustified pay increases may be offered to staff.

As suggested by Armstrong (2010), reward managers can have to this extent recourse to three different systems:

- Reference point control – according to this method, employees can progress till the reference point control of a grade, usually identified with the level of salary coinciding with the mid-point of a grade, on the basis of the level of competencies gained. Once the reference point salary level of a grade has been reached, meaning by that that an individual has become fully competent and/or qualified, further pay progression within the grade will be offered only in the case of sustained and repeated outstanding performance and/or achievements;
- Threshold control – a level of pay is identified within each grade beyond which further pay progression is offered only whether an individual gain a pre-identified level of expertise and performance;
- Zones or segments control – in this case, rather than identifying a single threshold within a grade, a number of check-points, ranked in a progressive order, are identified in order to ensure that before an individual receive pay increases beyond each of these points the pre-set requirements relative to each threshold have actually been met. This method can be implemented by means of separating each grade into, habitually three, different zones.

Since the introduction of such forms of control is very likely to slowing down individuals pay progression course, employers usually supplement these systems with variable pay schemes. The objective of introducing variable pay schemes in conjunction with a broad-banded pay structure is clearly that to balance, by means of these, the slower pace at which individuals usually receive base pay increases under these schemes. This can reveal to be an effective approach to enable employers to assess whether individuals performance is sustained or otherwise before offering employees permanent basic pay increases.

Broad-banded pay structures have been introduced within many organizations; employers, however, clearly use this approach in the way they consider as the most suitable to meet their needs. At Bristol-Myers Squibb, for instance, the structure is composed of eight grades, which are common to all of the countries where the firm operates, albeit salaries levels differ in the different countries where the business operates. Additionally, the organization takes particular care with the level of salary which may be required to attract new talents. This enables the concern not only to assess whether the level of salary identified for a specific role within a country is in line with the local market rates, but also to make changes accordingly if required. At COLT Telecom the structure formed of nine grades is considered particularly important by managers to explain employees how these can progress within the business and to enhance succession planning practices. An example of introduction of zone control is provided by Lloyds TSB, where three zones have been identified. In the primary zone of a grade are included salaries of new hires or of people new in the role. These usually, but not invariably, stay in the zone for two, three years in order to become fully competent in the role and before being offered the adjacent next salary level. The level of salary included in the market zone segment, the second of the system, is essentially based on market rates and is offered to individuals considered fully competent in their role. The levels of pay defined within the high-performance zone, the structure’s highest, as the self-explanatory wording suggests, are reserved to high-flyer, high-performers individuals who have effectively contributed to organizational success (Source: Armstrong, 2010).

Broad-banded pay systems

Broad-banded arrangements can be considered as a step forward in the hypothetical evolutionary process aiming at reducing a pay structure number of grades whilst increasing their range width. These structures are usually formed by less than six bands with each band spam being typified by the distinctive characteristic of being particularly wide vis-à-vis the typical grade of broad-graded and narrow-graded structures. However, whereas the difference between narrow-graded and broad-graded systems is essentially limited to the number of grades forming the pay structure and their range width, broad-banded structures also vary from these in that, consistently with the specific aims employers introducing and implementing these want to pursue, are differently managed.

The introduction and use of broad-banding pay structures originated in the United States between the late 1980s and early 1990s. The main objectives these pay arrangements were intended to pursue were to simplify pay structures, ensure pay flexibility and enable businesses to achieve flatter organizational structure models in order to meet their constantly changing organizational needs.

Very practically, this method consists in reducing the number of grades included in a pay structure, whereas extending the width of each grade. WorldatWork (2004) defines broad-banded structures as pay structures “that consolidate a large number of pay grades and salary ranges into much fewer broad bands with relatively wide salary ranges, typically with 100 per cent differences between minimum and maximum or more."

The distinctive characteristic of broad-banding, which actually mostly contributes to differentiate this from broad-grading, is that differently from the latter the former approach does not include any check or warning system in order to prevent unjustified pay increases or pay drifts. According to the mechanism of this approach salary increases are therefore mainly decided by managers in full autonomy. The lack of a systematic and clear approach to pay progression, however, accounts for this method being prone to favour biased decisions and expose organizations to equal pay discrimination claims risk.

Among the most compelling reasons for employers moving towards broad-banding are usually mentioned the expected savings in terms of personnel costs and the reduction of the administrative burden usually associated with the administration of complex pay systems. Devotees of broad-banding, when backing the effectiveness of this method, also tend to stress the relevance of the savings achieved by employers by means of avoiding the usual costs associated with the job evaluation exercise development and implementation. The circumstance managers can set individuals included into a given band different activities and tasks, with no need to necessary grant them any grade or salary increase, clearly also accounts for this approach revealing to offer much more flexibility to employers and unquestionably favouring individual lateral or horizontal development. This enables in turn organizations to maintain flatter and less complex their internal hierarchical structures.

When broad-banding can actually reveal to be effective

The organizational context is the more and more influenced by the external environment where changes are occurring at an increasingly faster pace. Organizations which are particularly exposed to and affected by the exogenous environment use hence to avail themselves of introducing broad-banded structures which, in many circumstances, can enable them to be more reactive to market pressures and support risk-taking initiatives.

Putting aside, at the moment, the possible drawbacks usually associated with the introduction of broad-banded structures within a firm, it clearly appears that this approach is absolutely consistent and coherent with one of the main tenets on which it is actually based and developed, that is, the focus on market rates, rather than on internal relativities. Broad-banding main aim is not actually that to achieve consistency and fairness in terms of internal relativities, but rather to mirror the external competitive labour market trends and reproduce these internally (WorldatWork, 2004)

By reason of this distinctive feature, broad-banded pay structures can enable employers to attract quality individuals not on the basis of structured, defined and well identified salary and career progression maps, but rather mostly by linking individuals results and performance to a contingent pay scheme, where a higher level of pay is attained only if deserved and whether performance and results are repeated over time. An additional remarkable consequence, which also represents a further element of distinction between broad-banded and narrow-graded and broad-graded structures, is hence that pay is determined and commensurate with individuals' performance and not with roles. As suggested by Arnold and Scott (2002), broad-banding is hence suitable for those organizations whose corporate culture is fostering performance enhancement insofar as paying and recognizing the individual rather than the role. Yet, broad-banding arrangements can turn to be particularly effective for organizations deciding to abandon "incremental pay progression" schemes, which reveal to be particularly expensive over time (NJC, 2005).

In general, it is assumed that broad-banding reveals particularly useful for employers in order to support organizational structure and change, but not to lead change. Insofar as, in order to avoid an inescapable fiasco, before introducing broad-banded structures, employers should be sure that the existing organizational culture is consistent with this approach rather than relying on its introduction to change the organizational culture (WorldatWork, 2004).

Identifying bands

Armstrong (2010) suggests five different methods to identify and define bands, varying from having recourse to descriptive labels to defining bands on the basis of job evaluation points brackets. This latest method can clearly be used only whether a job evaluation exercise has been previously carried out.

Descriptive labels: according to this method bands are named on the basis of generic labels such as: senior managers, managers, middle managers and/or team-leaders and individual contributors (personal, professional, administration and support).

Generic description: in this case, for each identified label is also provided a very brief and generic description of the role; for instance:

- Senior managers – executives accountable for overall complex units, functions or departments;
- Managers – accountable for sub-units, sub-functions or sub-departments;
- Middle managers and/or team-leaders – accountable for a specific office or a reduced number of individual contributors;
- Personal contributors – professional/technical – fully qualified and/or fully competent individuals in professional and technical roles;
- Personal contributors – administration and support – individuals carrying out clerical and supporting roles.

Brief analytical description and *detailed analytical description* – According to these methods bands are described in an increasing level of detail, from providing a few synthetic information, to detailing the main characteristics of each role;

Job evaluation – Since the number of bands will be defined beforehand, job evaluation scores would just be used to identify the points range for each band. Each band is hence defined on the basis of points brackets where roles will be slotted into according to the job evaluation scores. Amongst the five methods outlined, this clearly represents the relatively less judgmental.

Once bands have all been defined and named jobs can be assigned to the different bands. In order to do it either an analytical or non-analytical method can be used and slotting as well as benchmarking can both be employed. The more scientific and analytical the method used to assign jobs to bands, clearly the more consistent and coherent will be the final outcome.

Jobs of broadly equivalent value should be included in the same band. Taking for instance the case of management, what will happen is that all of the management roles existing within the business, that is the roles of managers working in the different functions and departments of the organization, will all be included into the same, relevant band. Reward managers should hence define salary levels for all of the managers included into the band. This can require the identification of different job families within the same band in order to determine, on the basis of the external market rates, the different level of salary for the different management positions. It is in fact likely that market data will reveal the existence of different salaries for the different managers according to the circumstance that these work within the HR, Operations, Finance or other organizational functions.

For flexible the salary levels associated with each band might be, it would however make no sense leaving within each band as many salary levels as the number of jobs. On the other hand, however, reward managers, by means of the market data gathered with reference to each category of employees, should need to determine an overall and comprehensive pay range within which all of the required pay levels are actually included (Milkovich and Newman, 2002).

As appropriately stressed by Arnold and Scott (2002), the most important challenge for reward managers and professionals is hence to be able to introduce and execute broad-banded structures representing effective, brand new systems instead of purely disguising the old structures.

When broad-banding can turn to be inappropriate and counterproductive
Although for different reasons broad-banding can appear to be a rather attractive and interesting option for employers, the decision to have recourse to this approach cannot clearly be made on superficial grounds or just as a way to merely reshuffle existing grades. The one-size-fits-all approach in reward management is very unlikely to produce

effective results, so that broad-banding cannot and have not to be intended as a universal remedy.

Before deciding to introduce this approach there are a few mandatory activities that need to be carefully performed. Unquestionably, the first of these is assessing whether broad-banding is consistent and coherent with organizational culture. Concerns whose culture is, for instance, based on values such as fairness and equity and which have traditionally fostered pay systems based on the importance of internal relativities, rather than on external market rates, are unlikely to introduce and execute this approach quickly, smoothly and let alone successfully.

The same conclusion can be reached in those cases in which broad-banding is introduced within "heavily level-oriented" businesses (WorldatWork, 2004). A pay structure where salary differences are blurred and unstructured and where the reasons for a salary increase would appear to be unclear can in such cases just produce negative effects leading to a predictable failure.

Albeit broad-banded structures are fostering horizontal growth and could hence reveal to be particularly supportive of cultures endorsing teamwork, these could reveal to produce detrimental effects when applied to firms whose culture is instead based on favouring individual development and vertical career. Indeed, whether the risk associated with the financial reward aspect could be mitigated or even removed by means of complementary contingent pay schemes, the aspect associated with the career development side would remain difficult to manage. Yet, the apparent, and sometimes substantial, confusion in terms of pay management characterizing this approach could make it harder for employers using reward in order to influence individual behaviour attaining this objective. On the contrary, broad-banding might more likely boomerang on the organization, producing the detrimental outcome of encouraging an undesirable behaviour amongst staff.

Broad-banding limitations

Even though the introduction of a broad-banded pay structure could reveal to be consistent with a concern's culture, there are a whole range of considerations and issues which reward managers should consider from the outset and surmount before deciding to embrace the approach.

The first aspect which traditionally typifies broad-banded systems is that being these practically exclusively market-driven, internal fairness and equity receive limited, if any, attention. As posited by Arnold and Scott (2002), however, as far as employees feel that their pay is consistent with the market rates, they could also perceive that their level of pay is adequate and hence fair. The problem is that according to the broad-banding approach it is practically up to managers making decisions about their direct reports salaries. This clearly exposes employers to the serious risk that managers' decisions could be biased and, more in general, to the risk of frequent salary drifts. Additionally and what worse, this might practically represent a return to the past. One of the most compelling reasons for employers introducing more formal pay systems was in fact to prevent line managers and supervisors from jeopardizing employee relations by means of biased decisions about their staff salary increases (Milkovich and Newman, 2002). Broad-banding could actually contribute to re-establish such risky and hazardous practices of the past.

The introduction of a broad-banded pay structure, however, could also contribute to make managers' goal to pursue pay fairness objectively more complicated. Considering that bands have particularly wide spams and that different roles are included under the same band heading, it could reveal to be objectively tricky for managers to properly administer their staff salaries whilst trying to attain pay fairness and equality (Arnold and Scott, 2002).

This is actually the same reason for employers finding it harder making external market comparisons too; especially when the majority of the other organizations operating in the same market do not use broad-banded structures. It will surely reveal to be extremely demanding and difficult trying to compare the internal salaries of the people included in the same broader band with those associated with roles which are differently distributed throughout several grades of other firms' pay structures. The circumstance bands do not have a mid-point can only contribute to make things harder (Arnold and Scott, 2002). Much of the time saved not carrying out the job evaluation exercise might thus be absorbed by the attempt to identify the right match between internal bands and external grades. Additionally, managers will need to compare external salaries essentially linked to roles with internal salaries basically associated with individuals, rather than roles. All of that will clearly contribute to make things the harder and harder.

The comparison between internal pay levels and external labour market and benchmark data may even reveal trickier to perform in practice by reason of the circumstance that broad-banding implementation also entails that individuals within the concern develop additional skills and cross-function capabilities (Arnold and Scott, 2002). It may hence reveal even virtually impossible for reward managers compare an internal role with an apparently similar role existing in the labour market in that individuals performing that role within the business employing a broad-banded pay structure have surely developed additional competencies vis-à-vis those developed by individuals carrying out the same role within organizations using more traditional pay structures. This should actually represent no cause for surprise, after all, differently from traditional pay systems, broad-banded systems aim to tailor pay to individuals and not to roles. It clearly transpires that, even putting bias and risk of unfairness aside, determining the correct level of pay for each direct report may reveal to be an objectively difficult feat to achieve for managers, especially whether precise and clear guidelines have not been provided by the employer.

In theory, the introduction of broad-banded structures should contribute to let individuals feel more engaged and motivated, both for the wider variety of skills and capabilities they are put in the position to gain and for the frequent opportunities for horizontal development offered to them as a matter of course. All of that in turn will clearly contribute for these individuals being more appreciated by their current employers and to increase chances of success should these decide to look for other job opportunities in the labour market.

Broad-banding, favouring individuals horizontal development, also enables line managers to create more occasions to implement effective job design and job enlargement practices and initiatives as well as favouring teamwork. This approach leaves hence managers a very high degree of latitude both as regards the organization of the work and the salary increase decision-making process. As averred by Mondy et al (2002), broad-banding emphasizes thus structure and control. Notwithstanding, the introduction of such a system could reveal to be remarkably detrimental for an organization whether just a very few managers should use their considerable degree of leeway to make biased and unfair decisions, irrespective of the circumstance that these would be associated with individuals development or pay increases.

Managers prejudiced decisions do not represent the only risk employers are exposed to as a consequence of the introduction of broad-banded pay structures. Indeed, also the lack of opportunities for career advancement could very likely reveal, over time, to be a serious cause for individuals disappointment and disaffection with the employer and demotivation for their job. These feelings or change of mood, which can ultimately cause employees to leave the organization, can in many occasions be identified by managers who, in order to avoid people to leave, may react showing an indulgent behaviour during performance appraisal meetings at best, or offering salary increases or complementing base salary with some forms of unjustified contingent pay at worst (Arnold and Scott, 2002). In the unavoidable aftermath of all of these events, employers will invariably find themselves facing remarkably increased personnel budgets. Yet, an unjustified obliging managers' behaviour during performance appraisal meetings will clearly be in open and sharp contrast with the scope this meeting has, particularly within organizations where a broad-banded structure is operated. In this case performance review is actually even more critical and crucial to sustain and support the arguments justifying salary increases and the salary levels achieved by each individual.

Managing salary levels when broad-banded structures are in place is very likely to reveal particularly hard for managers even though when broad-banded structures are supplemented with contingent pay schemes. Even more so, whether clear and objective guiding principles and procedures have not been devised by employers in order to identify salary of new entrants and manage movements throughout the band of existing employees. In order to curb the effects of the likely downsides associated with this aspect, employers use to segment bands introducing zones within these, which in the end basically work as grades (Milkovich and Newman, 2002). It clearly appears pointless introducing broad-bands and hence splitting these into grades, it would make no difference to this point introducing narrow-graded or broad-graded pay structures. Supporters of broad-banding argue that this approach enables employers to reward individuals for lateral movements or horizontal development. However, as suggested by Arnold and Scott (2002), whether individuals lateral movements aim to enable them to more effectively carry out their duties, paying them just for this reason will practically constitute a mere waste of money; whereas if this lateral movement throughout a band should aim to reward performance, this objective could better be achieved by means of contingent pay schemes, taking as axiomatic that performance appraisal procedures would be operated properly and effectively. Additionally, whether pay upgrades should be linked to jobs size and individuals being paid within the same grade perform a wide variety of jobs and tasks, it will appear even harder for managers differentiating and discerning jobs sizes within the same band.

But this is not all; the list of arguments on the flip side of broad-banding is still fairly long. Albeit it was originally supposed that broad-banding would have enabled employers to attain a better personnel costs control, as we have seen, risks that managers would mismanage employees pay is instead very high. This can be associated both with biased salary increases and with unjustified salary drifts caused by genuine confusion and lack of clarity about pay management. The impact of broad-banding over the personnel budget can also be amplified by the mismanagement of contingent salary schemes usually supporting broad-banded structures.

The appeal of broad-banding over the years

Since its origin, broad-banding has caught the keen interest of many employers and it actually still appears to be fairly beguiling. However, after having boosted in the early 1990s in the US, the fortune of this approach has appeared to be less promising thereafter.

Between 1993 and 1999 the number of employers planning to introduce broad-banded structures in the US decreased from 39 per cent to 18 per cent, whereas the number of organizations having recourse to the approach raised from 10 per cent in 1993 to 21 per cent in 1997. However, between 1997 and 1999 the number of employers using broad-banded structures increased of a tiny 2 per cent in that reportedly only 23 per cent of employers claimed to use this approach in 1999 (HR Focus, 2000).

Findings of a survey carried out amongst 360 firms in the US (95 per cent of the panel) and Canada (5 per cent of the panel), in 2010, revealed that albeit the vast majority of employers (74 per cent) used market pricing methods to design salary range structures, only a measly 7 per cent used broad-banded structures, whereas 82 per cent had recourse to more traditional salary structures and 9 per cent employed hybrids of traditional and broad-banded structures (Culpepper, 2010). Similar results emerged from the findings of a more recent study carried out by WorldatWork and Deloitte (2012). The study revealed that broad-banding (range spreads of 80 per cent to 200 per cent - no mid-point) was only used by 12 per cent of employers, whereas market-based salary structures (range spreads of 30 per cent to 80 per cent - mid-point progression of 10 per cent to 15 per cent) were employed by 64 per cent of businesses and traditional pay structures (range spreads of 20 per cent to 40 per cent - mid-point progression of 5 per cent to 10 per cent) by 23 per cent of the firms covered by the investigation.

In the UK, findings of a survey carried out by the IPD in 2000 revealed that albeit 16 per cent of the concerns having introduced broad-banded structures were considering implementing changes, less than 1 per cent of them intended to abandon the approach.

It also emerged that 22 per cent of the employers participating to the study were considering introducing broad-banded pay structures. Employers seemed to be fairly satisfied with the mechanism typical of broad-banding insofar as 14 per cent of them regarded as fully attained the intended objectives for introducing the approach, whereas 58 per cent considered that objectives had been, albeit not entirely, mostly achieved. Employers, who had experienced some problems with this method, also seemed to be fully aware of the reasons for not having attained the intended results, which they deemed to be linked to the inappropriate performance management system in place (26 per cent) and to the managers non having been properly trained (18 per cent). Five years later the new National Joint Council (NJC, 2005), argued that broad-banding was widespread amongst many types of organizations, including the civil service, adding that the approach remained however still "uncommon." Employers having developed and introduced such a scheme, still according to the NJC, have experienced problems for equal-pay related reasons, insofar as many of them have reconsidered to come back to more traditional salary structures in order to ensure transparency to their pay practices.

Finding of a more recent investigation (CIPD, 2011), however, revealed that in the UK broad-banding is still one of the most frequently used approach to manage base pay, especially in the private sector services and manufacturing and production industry. By contract, broad-banding is much less frequently used within the public sector services and non-for-profit organizations. Differently from what it is actually occurring in the US, in the UK broad-banding seems to still hold firm or even progressing; it in fact represents the second most popular approach to base pay (24.7 per cent), second only to individual pay rates/ranges/spot salaries (30.1 per cent). Narrow-grading (11.7 per cent) is, in contrast, the approach to which employers reportedly have less recourse. Findings of the investigation also revealed that market rates (52.4) represent the second factor employers consider to manage base pay progression after individual performance (61.4). Indeed, although for senior management positions pay is nearly exclusively determined by means of individual arrangements, the base pay of middle managers is equally determined by means of individual agreements and broad-banding (27.1 per cent in both cases). As the 2000's IPD Study concluded, it can still be said that, at least in the UK, "it seems that broad-banding is here to stay."

Proceed with caution

Albeit broad-banding could reveal to be consistent with both organizational culture and strategy, before introducing this type of scheme employers and reward managers should invariably ensure that some additional activities have been properly and carefully performed.

The introduction of broad-banded structures clearly has or may have a remarkable impact over the overall reward management practices so that not only has it to be consistent with these, but also with the reward management philosophy. It is hence of paramount importance that broad-banding fits the overall reward management strategy in order to eventually address or readdress total reward strategy and make the necessary arrangements accordingly. All of this entails that the introduction of such an approach has to be associated and amalgamated with the overall employer reward offer.

Contingent pay schemes and benefits programmes need to be reassessed in order to ensure not only continuity and consistency of all of the available forms of reward, but also that synergy, which should be ensured by bundling, is attained too.

As usual, but even more in this case, the role of line managers for the successful execution of this approach is of paramount importance. As seen earlier, this scheme attributes to managers an even more important role in reward management and a higher degree of autonomy in pay determination, so that these need to be made aware of and prepared for this. Appropriate and specific training also needs to be provided to managers in order to enable them to more appropriately manage individuals' development and growth (WorldatWork, 2004).

Apply broad-banding globally

Essentially, the main reasons for employers deciding to have recourse to broad-banding are to downsize organizations, flatten hierarchies and attain higher levels of productivity and performance. These reasons, especially when the economic and financial scenery appears to be rather grim, tend to be globally common, so that these may essentially be behind the decision made by a European, an American and an Asian employer as well. However, as averred and contended in many occasions earlier, the one-size-fits-all is totally unlikely to succeed. Yet, since the introduction and execution of a broad-banded pay structure has to be matched with an organization's culture, differences cannot be considered only between continents, countries or regions; indeed, even two different organizations operating in the same area could make different, but consistent, decisions as regards broad-banding their pay structure. As properly suggested by WorldatWork (2004) the best approach to broad-banding is hence "to think globally, but act locally."

Companies operating in different countries need to consider local values, beliefs and cultures. Needless to say, duly considering local regulation is mandatory and of paramount importance as well. Albeit broad-banding can also be extended to a number of business units, factories or plants across different countries, the approach will need to be tailored and adapted to the circumstances. This diversified approach can even be applied within a single organization, where an employer might find it useful to broad-band pay only for a category or grouping of employees in order to readdress existing specific salary issues or simpler because broad-banding enables employers to better manage pay of a specific group of employees or function by reason of its specific peculiarities.

Compa-ratio and salary range penetration

One of the hardest tasks managers have to carry out is that to make decisions about individuals pay increases. Normally, the broader the pay ranges, the harder to take control of pay progression. The identification of reference points in narrow-graded structures and the introduction of control systems such as threshold, reference point and segment controls in broad-graded structures aim at enabling managers establishing a firm and clear frame of reference within grades in order to keep under control individuals' pay progression. However, this objective is much more difficult to attain when pay progression have to be managed under a broad-banded pay system.

The tools most widely used to control pay progression are compa-ratio and salary range penetration. More in particular, considering that a compa-ratio can be expressed when a grade mid-point has been identified, this could more widely be used when narrow-graded and broad-graded structures are in place, whereas the salary range penetration may reveal to be more useful and effective in those cases in which base pay is managed by means of broad-banded structures.

Compa-ratio

This approach is essentially based on the idea that pay comparisons can be made using expressly identified ratios. These ratios can be calculated after having identified a common reference point within each grade of a pay structure. The reference point used to calculate compa-ratios is the grade mid-point. Salaries of different individuals will be thus compared on the basis of the position these have within the grade range vis-à-vis the mid-point. A compa-ratio provides as such indication about the pay of an individual with reference to a grade mid-point salary level or, as suggested by Armstrong (2010), it expresses an individual pay as a percentage of a range mid-point. Whether the compa-ratio of a salary is hence 100 per cent, or 1.0, it means that the salary in question coincides with the mid-point.

The formula for calculating a compa-ratio is very simple; it suffices to divide a given salary by the mid-point salary. Considering £35,000 as the mid-point salary (grade range: £30,000 - £40,000) and £33,000 the salary under investigation, the compa-ratio will be 33,000 : 35000 = 0.942857, this entails that this salary is 94 per cent of the mid-point salary.

Helping to calculate, rank and monitor employees' salaries, compa-ratios can enable managers to gain a clear insight of staff pay levels and immediately identify individuals whose salaries are sensibly higher and lower than the mid-point salary and to what degree.

Considering that mid-point salaries are in general aligned to the external market data, compa-ratio can also reveal to be an important indicator and predictor of employees turnover. Whether an individual compa-ratio remains for a relatively long length of time sensibly below the mid-point salary, it is likely that the person in question may decide to leave the concern. By contrast, a compa-ratio remarkably higher than the mid-point salary should be properly investigated, the risk being that the organization is paying fairly more than it should and that a salary drift is actually the cause for that inappropriate salary level. In the event personnel data should reveal that turnover is very low despite there are many individuals with a remarkably low compa-ratio in the organization or that turnover is relatively high albeit many people have a sensibly high compa-ratio, pay market data should carefully be checked in that it is very likely that these have become obsolete and as such no longer reliable.

Compa-ratio can also effectively be used to determine salary levels of new entrants in a role vis-à-vis the mid-level and hence the market rate salary level. Whether a senior employee on a given role might be paid for instance 115 per cent to 120 per cent of the mid-point, hence 15 per cent to 20 per cent higher than the market rate for a fully competent person in that role, a newcomer could be paid at, for instance, 80 to 90 per cent of the mid-point grade salary level.

In general, employers should also identify a period of time within which an individual should become fully competent in his/her role and reach hence the mid-point salary. The fact individuals receive a salary with a fairly low compa-ratio or a salary whose compa-ratio remains below 1.0 or 100 per cent for an exceedingly long period of time might account for these never reaching the level of salary currently received by the other more experienced colleagues. Whether labour market rates should increase annually, employers might find it particularly difficult to grant employees, whose salaries have remained unchanged for many years, salary increases which might have an impact over their compa-ratio. An increase of, for instance, 4 per cent in the market if replicated in an individual salary will suffice only to keep the individual compa-ratio unchanged, in order to increase the individual compa-ratio employers should hence offer a salary increase comparatively higher to that offered in the external market. Clearly, the longer the period an employee's pay will be kept unchanged the more costly would reveal increasing the percentage value of his/her compa-ratio.

All-in-all, it clearly appears that the calculation of compa-ratios can definitely reveal to be very important for employers for checking consistency between external labour market data and internal base pay data, as well as to predict staff turnover. Reward managers and professionals should annually calculate and monitor employees' compa-ratios data and provide managers with the relevant information enabling them to effectively administer their employees' base salaries and careers.

Salary range penetration

Salary range penetration is usually used in combination with compa-ratios. Indeed, for its peculiarities and characteristics, this approach is much more suitable and can reveal to be particularly effective as a base pay management tool when a broad-banded pay structure is in place.

Differently from compa-ratio, range penetration does not explore the correlation between a given salary and a salary taken as a reference point, that is, a grade mid-point, but more extensively analyses and considers a salary in the context of the overall pay range. That is essentially why this approach can turn to be particularly useful when managing pay within a broad-banded salary structure where there are usually no reference points.

Indeed, also the salary range penetration formula is very simple:

$$\mathbf{RP = S - RLS : RHS - RLS}$$

S = Salary object of investigation, **RLS** = Lowest salary in the range, **RHS** = Highest salary in the range.

Considering the same data previously used for the calculation of the compa-ratio, we will have:

RP = (£33,000 - £30,000) : (£40,000 - £30,000) = 0.30

Indeed, this case is very simple, over a range based on a scale of ten thousand pounds (from 30K to 40K) £33,000 lies exactly at 30 per cent of the range. Considering a different example where the salary range is £35,000 - £50,000 and the salary which is object of assessment is at £38,000 we will have:

RP = (£38,000 - £35,000) : (£50,000 - £35,000) = 0.20

This means that a salary of £38,000 is 20 per cent into the considered range. In both cases by calculating the salary range penetration managers can ascertain that there still is much room for manoeuvre for the individual base pay progression.

Both compa-ratio and range penetration can practically be used by managers as a compass to orientate themselves in the base pay management jungle. However, whilst a number of reference points can more easily be employed when narrow- or broad-graded structures are introduced within a business, managing individuals base pay is definitely harder when are operated broad-banded structures. In the latter case, calculating the range penetration rates of the salaries included within the same pay range can definitely help managers to better control their direct reports salaries and avoid pay drifts. In this case in fact salaries are assessed regardless of the identification of a band mid-point, in order to identify where, considering a given range, an individual’s salary stands and how much room for manoeuvre for salary increases is still available within the relevant band. Comparing range penetration rates, managers can also identify whether some inequalities actually exist amongst their direct reports and eventually take appropriate action.

Range penetration can also reveal to be a useful indicator for employers wanting to assess the appropriateness of the width of their pay structure ranges. Whether it should emerge that an exceedingly large number of employees’ pay should be included within a restricted area of a range, for instance, this could mean that the pay range is too wide. Yet, range penetration can also enable managers to pre-identify where newcomers and more senior, experienced staff pay should fall within the salary range.

These indicators are definitely important and can really help managers to gain a useful, in-depth knowledge of reward practices and, most of all, of the way these are actually managed and executed. Calculating and monitoring these ratios can in fact effectively enable reward mangers to assess the consistency and appropriateness of the reward management practices introduced within the organization and determine whether these are still consistent and coherent with the reward philosophy underpinning them. As anticipated earlier, however, in the event reward managers should identify some issues associated with reward practices, having recourse to these ratios can also help them to understand whether problems actually relate to the rhetoric of reward management, that is, to the definition and development of reward policies, or rather, to their implementation. Whatever the case, the exercise is definitely well-worth the efforts and can absolutely help reward managers to eventually identify and introduce the required adjustments.

Job family and career family pay structures

The investigation carried out by the IPD in 2000 (IPD, 2000) revealed that, albeit just 16 per cent of respondents had introduced job family structures at the time, an additional 17 per cent of employers had made plan to have recourse to this approach in the incoming future. Reportedly, the main reason for employers envisaging to introduce this method was to avert the employees' disappointment caused by the establishment of broad-banded structures. These were indeed perceived by individuals as not based on a clear, structured and easy to understand pay progression mechanism.

All of this seemed to represent a clear inversion of trend; employers after having broad-banded pay systems in order to attain flatter structures and understate the importance of promotions, were then planning to introduce family-based pay structures, hence a more traditional pay system, with the contrasting aim to make employees aware of the opportunity for professional growth and pay progression the organization could offer.

Approximately ten years on, findings of a similar investigation carried out in the UK by the same body (CIPD, 2011) revealed that just 18.7 per cent of respondents employed job family/career grade structures. Indeed, the overall rate was fairly penalized by the score recorded by the public sector industry, where this method was only used by 4.6 per cent of employers. This, even though a joint agreement for the development and use of career families and career pathways had, for instance, been signed in 2004 between The Association of Colleges, the Association of College Management and Unison in order "to facilitate the implementation of the career family structure, ensuring equality of pay particularly for part time staff." Without a doubt, albeit the private sector services featured a 25.7 per cent rate and the manufacturing and production industry recorded a 22 per cent score, it cannot be said that this approach to base pay management has actually boosted in the UK.

As for the mechanism underpinning the way these schemes are designed and developed, both job family and career family pay structures are based on the common approach of grouping under the same family jobs which are considered connected the one with the others in that requiring the same set of skills, abilities and competencies in order to be properly carried out. The main feature of these methods is that a different family is habitually designed and developed for each organizational function, such as HR, Finance, ICT, Legal, Sales, Marketing, etc., where a diverse degree of expertise and knowledge is required for the different levels of responsibility included within each family. Both job families and career-families thus essentially enable employers to integrate the jobs existing within the concern in a more systematic and consistent way. The main distinction between the two approaches is represented by the circumstance that whilst career-families share exactly the same architecture, this does not happen with job-families.

In the case of career-families the various families introduced within the same business employ exactly the same grades and even pay ranges for all of the levels included within each family are equal. This homogeneity amongst families actually enables employers and employees to make easy comparisons amongst the different families or, as suggested by Armstrong (2010), to "read-across" families.

Things are fairly different in the case of job-family pay structures where each family has its own architecture based on the various functions peculiarities. Yet, pay rates are, in this case, determined according to the trends emerging in the relevant external labour market. This entails that, differently from career-families, job-families' size of jobs and pay rates may be completely different amongst the various families, precluding thus employers and employees from reading across them.

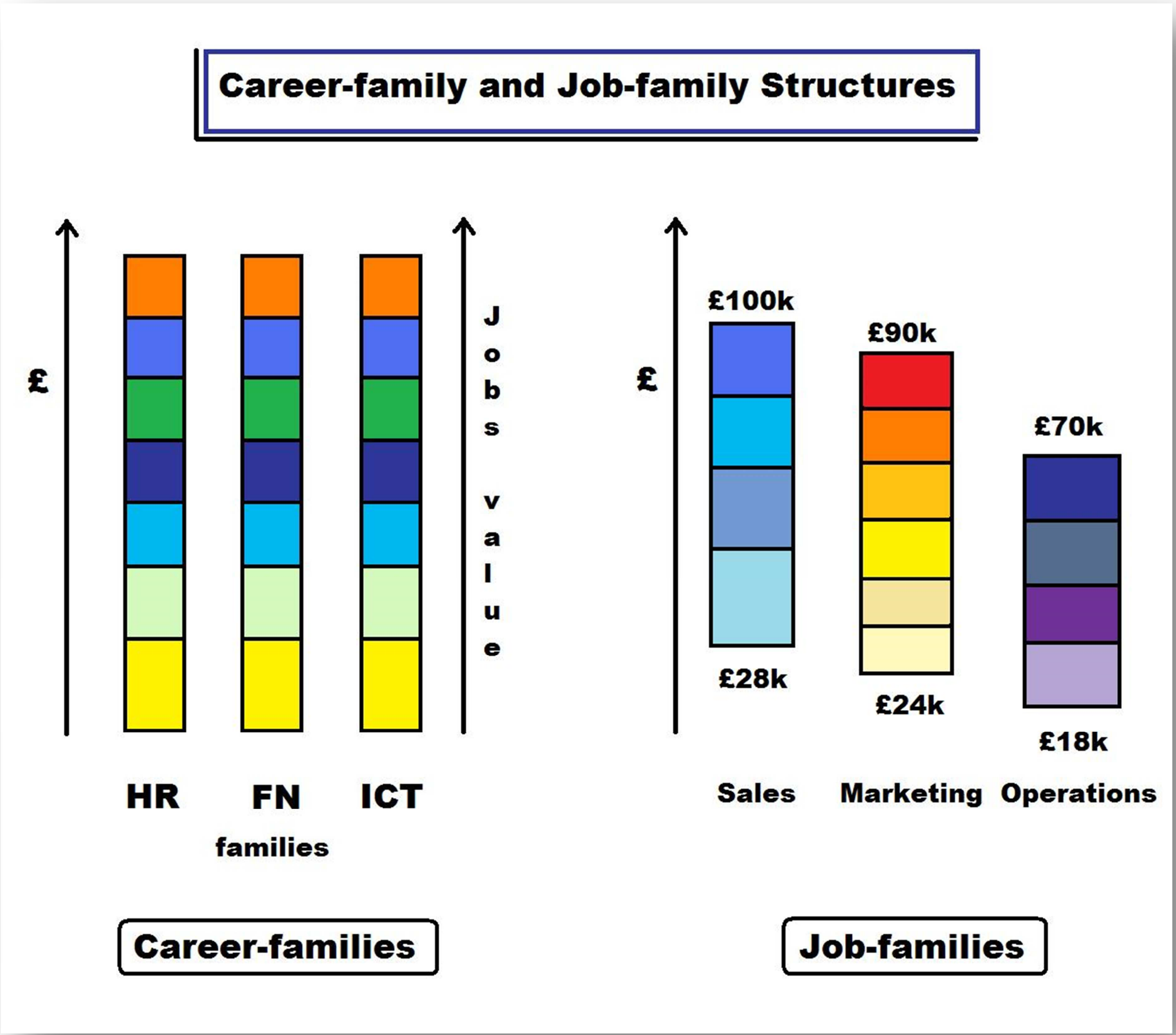

Table 34 – Career-family and Job-family structures

By defining the level of knowledge and expertise required at the different levels of each organizational function, career-families practically help employers to outline and explain staff what qualities and competencies are required and sought by the organization in order to this offer individuals opportunities for career progression and development. Career-families, as such, like pay structures based on job levelling, practically represent somewhat of career-maps, ultimately enabling individuals to find out what skills and competencies are required within a function to progress, what are the likely opportunities for growth and development offered within each function and which level of pay is associated with each career stage included into a family.

In general, families can be related both to organizational functions, occupations groups and business units (Reilly, 2004). According to the circumstance that the functional or occupational groupings taken into consideration are associated with business units' structures or otherwise, families can provide vertical in addition to horizontal integration.

One of the most important decisions reward professionals need to make as regards the introduction of families concerns the identification of their number. In a bid to keep pay systems simple, employers habitually aim at maintaining the number of families as small as possible. However, employers can clearly introduce as many families as they consider most appropriate to the circumstances. Also with reference to this particular aspect, it cannot be said by any means that a universal recipe actually exists; once again the one-size does not really fit all.

Determining the number of families is clearly easier when families are identified on the basis of the functions existing within the concern. This is actually most typically, but not necessarily exclusively, the case of career-families. In this instance it could be argued that the choice of the number of families leaves little or nothing to reward professionals' latitude and discretion in that it will certainly coincide with the number of functions existing within the business.

The problem can clearly be different in the case a pay structure is based on job-families. Invariably keeping in mind the aphorism "the simpler, the better", and that the main aim of introducing job-families is that to put in place a pay system as far as possible aligned with the external market rates, it can be suggested that the most suitable number of families should be that enabling employers to consistently differentiate pay according to the practical and real organizational needs.

In the event, for example, an employer should plan to introduce a dedicated family to a professional and/or specialist group, it should duly be considered that arguably this family could be transversal to the different organizational functions. In the labour market, however, there could be remarkable differences between the rates of pay of the different specialists included into a dedicated family according to the functions these activities are associated with. An ICT specialist's pay, for example, could sensibly differ from that of a HR specialist and, indeed, sensible differences could also be identified amongst the different specialisms existing within the ICT and HR functions. In such cases, the problem could be overcome introducing a number of families for the largest part of the staff and a different system for those roles which can actually be considered more difficult to include in more generic and comprehensive families (Reilly, 2004).

As for the identification of the number of levels to introduce within each family, it should be considered that whereas the number of levels within a job-family can vary from a family to the other, that defined for career-families has to be maintained invariably the same for all of the identified families; this number is usually varying from six to eight. Very practically family arrangements as a whole can be considered as pay structures having a single grade, where each family practically represents the different levels of pay included within the grade. Taken in isolation each family can rather be considered somewhat of a pay band where the different roles are associated with the various pay levels.

Differently from what occur in more conventional pay structures, where the definitions provided for each grade are the same, in family-based structures diverse definitions are introduced to outline the skills and competencies required by individuals in order to these progress within the family (Armstrong, 2010). Job families can thus reveal to be particularly useful when broad-banded pay systems are in place in order to establish a more structured approach to pay progression within a single band.

Pitfalls and benefits of families

Unquestionably, designing and developing pay systems having recourse to this method can enable employers to attain a wide range of objectives. In fact, family-based pay structures can first and foremost effectively and successfully help employers to develop a "common language" to reward, whereas differentiating functions the one from the other. Yet, families can also enable businesses to implement pay systems taking into account the different market rates existing for the different job groups (Reilly, 2004).

According to the Herts County Council, the introduction of job families can also favour employee mobility amongst the different departments and contrast the formation of organizational silos (Personnel Today, 2002). Moreover, job families can reveal to be particularly helpful in order to harmonize a business pay structure following the merger of two or more concerns. Reportedly, both the National Australia Group Europe (IRS, 2001) and Abbey (IDS, 2001), which resorted both to the introduction of pay families arrangements after a merger, availed themselves of the introduction of this method.

Whereas career-families are more internal-relativities centred, job-families are mostly focused on labour market rates, tending to mirror and reproduce internally external pay rates trends. This circumstance actually allows employers to attain some additional wider benefits. One of these is associated with the enhancement of a firm recruitment and retention practices. Employers whose pay structure is constantly kept in line with external market rates should in fact potentially be able to more easily attract quality staff and talents, whereas improving their retention capability strength.

Another distinctive benefit provided by families is that to reduce the administrative burden typical of the job evaluation exercise. Pay structures based on families are designed and developed by associating jobs with grades on the basis of jobs descriptions. Especially in the case of career-families, the exercise can be carried out taking as a reference the competency framework already existing within the organization for each function. This will clearly enable reward managers to more faithfully and swiftly complete the evaluation process, whereas establishing a more reliable and consistent link between career progression, the skills and competencies required for moving up the career ladder and the salary associated with the different steps of the career pathway.

The description of career-families levels is in general more reliable and consistent compared with that provided by more traditional pay structures. The former relate to roles sharing the same features, albeit at different level of responsibility, rather than summarizing the different skills and abilities required across the whole organization which, sometimes, may also be difficult to amalgamate (Armstrong, 2010).

Career-family structures developed having recourse to the same grading system, especially when based on the job evaluation exercise, are fairly defensible and sustainable in case of equal pay claims. These are indeed developed emphasizing the importance of internal relativities insofar as enabling to read-across the grades of the different families. In contrast, job-families structures, mainly focusing on the impact of the external labour market, are prone to expose employers to equal pay legislation problems. In the case of job-families jobs of the same value could actually be paid differently as a consequence of the pressure exerted by the external labour market. The fact that these differences are very likely involving the overall family, rather than a single level of the family, can only contribute to eventually make pay differences even more unjustifiable and unsustainable before a Court (Armstrong, 2010).

To curb the problem, reward specialists should do their best to collect reliable and accurate external data on the basis of which defining the internal rates. This is actually not always as straightforward as it might seem, especially for public sector employers (Reilly, 2004). In any case, for reliable data might be, external data will never be able to provide employers with any certainty that equal pay legislation tenets are reflected into them. That is why job-family structures at large are less likely to be defensible from the equal pay legislation point of view.

The problem associated with accessing reliable market data is clearly also important in order to employers keeping updated internal rates of pay with that existing in the external market. External data collection exposes hence employers to two different types of problems: equal pay legislation compliance and the need to regularly acquire new data in order to timely update pay rates.

An additional means to curtail the negative impact produced by family-based pay structures could apparently be that to reduce base pay and somewhat of balance differences by means of provisional pay supplements. However, employers should, in this case, be prepared to face the likely individual unwillingness to accept a pay reduction whether supplements should subsequently be withdrawn; albeit this is affecting variable rather than basic pay. Furthermore, the longer the period of time individuals have benefited of such supplements, the harder it will reveal for employers removing them. Yet, over time supplements tend to consolidate or to be perceived by individuals as consolidated, into base pay and managers usually feel definitely uncomfortable to support this type of employers move (Reilly, 2004).

But this is not all; one of the most important downsides provided by family-based structures is that these are perceived as divisive by individuals and in open contrast with the "single status" tenet fostered by the National Joint Council for Local Government Service (Armstrong, 2010). Indeed, the harshest opponents to family-based pay structures in unionized organizations are in fact Unions. These schemes are openly contrasted by Unions in that potentially or even practically justifying differences in pay for jobs of equal value. This should not actually came as a surprise, these systems are opposed by Unions as are opposed rates of pay based on market trends at large, rather than on internal relativities and, most of all, length of service.

Disadvantages of career-families are not limited to the legal aspect and to the Unions opposition; career- and job-families systems pose serious problems to employers also in terms of practical design, development and execution.

At development level, although being less demanding than job evaluation, families require lot of work and efforts to be accurately designed. It clearly depends on the number of jobs which need to be evaluated and on the difficulty encountered by the reward professionals concerned on matching jobs with families and with the grades within these. To favour accuracy, the process could be carried out on the basis of a template against which evaluate jobs and allot them into the relevant family and grade.

Also the implementation phase, as suggested by Reilly (2004), is everything but a straightforward process. Individuals are all too often unsatisfied with the family into which their jobs have been included. In some cases, that is, when a job is characterized by features making it difficult for evaluators to determine the most suitable family, it might even be harder contrasting individuals' opposition. In general, the reasons for employee complaints about their job allocation may concern either their status or the level of pay they receive. In both instances their feeling is that of having undergone a form of downgrade against which they ask for remedy.

It is supposed that family-based pay structures can also negatively influence internal mobility policies within a business. With reference to this criticism, it cannot be said that a widespread agreement has actually been reached. Some employers consider that families, clearly outlining the requirements necessary to fill a position, favour internal mobility, whereas others note that these actually contribute to favour progression only within functional or occupational silos. The moment clear skills and level of expertise are described for each family and for each grade within this, it should be no surprise that individuals could find it difficult, if not impossible, accessing most of the roles allotted in families different from that where their role is currently allocated. But this actually depends on the circumstances and more in particular in the way internal mobility is fostered and intended within a business. In general, internal mobility should be intended as an opportunity for employees, which can turn to reveal useful for employers too. It has to be used as a means of recognition and as a way to encourage individual professional growth. Depending on the circumstances and on the specific roles in question, barriers should hence definitely be removed and individuals put in the position to gain different skills and a broader knowledge of the business roles and activities; which will certainly contribute, in the mid to long run, to the organizational success too.

Albeit this aspect is not strictly associated with pay, reward managers and specialists have to be aware of all of the implications of introducing family-based pay structures and of the possible pitfalls associated with these. Another crucial aspect that reward specialists need to duly consider at the outset concerns how pay progression has to be managed within the business once this approach has been introduced. As we have discussed earlier, both career-family and job-family structures practically promote transparency and clarity about the skills, knowledge and expertise required to progress within a family. Career progression, however, is clearly associated with pay progression, so that, since decisions about these aspects usually rest with line managers, employers need to ensure, before introducing this approach, that all of the managers working in the concern with responsibility for their direct reports careers, have received the necessary training to properly and effectually manage this type of scheme. The risk being that, efforts and hard work notwithstanding, inequalities, bias and pay drifts occur or continue to occur within the business.

The reasons why employers introduce family structures

Albeit by and large family structures cannot be considered completely flawless, many organizations have decided to adopt these over time in order to attain specific aims and objectives. The circumstance that the concerns which have introduced family-based structures still use these clearly entails that the schemes have enabled them to meet their expectations and have proved to fit the business needs, organizational culture and reward strategy and philosophy.

More in particular, employers who have introduced career-family structures claims that the most compelling reasons for their introduction are:

- ✓ Purvey clear information to staff on the opportunities for growth and development offered by the employer;
- ✓ Outline for each family the career path and the skills and knowledge required to progress to higher grades within the family, vertical growth;
- ✓ Highlight the opportunity for horizontal growth offered to employees within the other business functions; describing, also in this case, the necessary requirements and the type of training and experience needed;
- ✓ Enable individuals to find out how their job and contribution fit their departments and the overall business;
- ✓ Contribute a single approach to human capital and performance management;
- ✓ Evaluate individual aptitude for job moves.

On the other hand, employers using job-family structures affirm that the main reasons for having introduced these are:

- ✓ Avoid complex and intricate approaches to pay structure development and design;
- ✓ Attain internal pay consistency whilst harmonizing pay with the external market;
- ✓ Stress the importance of achievements rather than hierarchy;
- ✓ Favour internal mobility by means of publicizing other families roles and pay;
- ✓ Attain more flexibility in reward management applying the most suitable rates according to the changing indications received from the market;
- ✓ Retain and attract quality staff;
- ✓ Reward individual contribution on the basis of their real involvement and role;
- ✓ Pursue the accomplishment of a multi-skilled workforce;
- ✓ Flatten organizational structure.

Clearly objectives can be fairly different, but properly designed, developed and monitored family structures can effectively help employers to attain their intended goal. What certainly matters is that before introducing such schemes employers should ensure that these are suitable for their organizations and that the final decision has to be made according to the existing circumstances and not just because this approach has revealed to be successful elsewhere.

Relating experience, qualifications and skills to job-families

Band 5	**Team-leader**	Responsible for team's performance, 5yrs experience in customer service as high performer with CSA accreditation to level 3
Band 4	**Coach**	Leads team training, act as individual mentor, 3-5yrs experience in customer service as high performer with CSA accreditation to level 3
Band 3	**Senior Customer Services Agent**	2-3yrs experience in customer service as high performer with CSA accrediation to level 2, able to deal with difficult customer queries
Band 2	**Customer Services Agent**	At least 1 year experience in customer service, able to deal with standard customer questions and meet performance standards, CSA accreditation to level 1
Band 1	**Trainee**	New recruit, learning basic job, working towards CSA accreditation level 1

Source: IES, 2004

Table 35 – Relating experience, qualifications and skills to job-families

Table 35 shows an example of how experience, skills and qualifications can be related to job families. The example in question refers to the customer services occupation and shows pay bands and career progression from band 1 to band 5 and from the entry level position to the most senior position. It is important paying attention to the circumstance that whereas a dotted line is dividing pay and career progression from the trainee to the coach roles, a hard line is separating the coach position from the team leader role. This difference is used to stress the circumstance that this part of the career development and consequent pay increases, are relatively easier to accomplish. In contrast, the position of team leader can be reached just by a very few individuals and clearly requires more efforts and a considerable experience (Reilly, 2004).

This is just an example of how a job-family can be linked to experience, skills and qualifications. Clearly, the way progression throughout a family develops can be outlined and designed differently, as well as differently can be placed in the family the *easier* and *harder boundaries* for progression from a level to the other.

Spot rates, spot salaries and pay rates

Spot rates, spot salaries and pay rates arrangements cannot actually be intended as formal pay structures in that the rates of pay determined having recourse to these approaches are not the result of a thorough, and let alone scientific, evaluation method. Individual pay, which may be identified as an hourly rate, a weekly rate or an annual salary, after having been identified by employers is subsequently associated with each job existing within the business and sometimes even with the single individuals.

These pay arrangements are hence developed associating each job with a different grade; as such the mechanism on which these schemes are developed can potentially lead to establish within the concern as many grades as the jobs existing within it. Indeed, these theoretical grades have the distinctive characteristic of having no range at all, offering hence no scope for progression within any identified hypothetical grade. Whether a scope for pay progression should be recognized by the employer, individuals will be associated with, and therefore progress to, a higher spot rate or salary.

Progression to a higher spot rate, spot salary or pay rate can be offered to:

- Reward individuals for their improved contribution to organizational performance (Armstrong, 2010),
- Maintain internal pay rates in line with the external market rates,
- Keep unaltered individuals purchasing power whereas inflation is on the rise (CIPD, 2013a).

These pay arrangements are more typical of retailer and manufacturing organizations, where simpler job hierarchies are usually in place (Armstrong, 2010). However, not always are these schemes used to manage the basic pay of all of a firm staff; on the contrary, these arrangements are habitually used to reward individuals whose pay is placed at the two ends of a more formal salary structure, that is, employees carrying out manual jobs and senior managers and directors. At the Lincolnshire County Council, in the UK, for instance, both the Chief Executive and Executive Directors posts are paid on a spot salary basis. More specifically, all of the Executive Directors are paid at the same spot salary level by reason of all of them equally having and sharing "collective responsibility for the success of all service areas and for the Council as a whole."

In practice, it is possible to link each job with a different pay grade whether and only if the total number of jobs existing within the concern is fairly limited. It will obviously reveal to be trickier using this approach to pay management within concerns with complex organizational structures and where a wide range of jobs actually exists. This method is also mostly used in small concerns and new businesses during the start-up phase in order to maintain a higher degree of pay flexibility (Armstrong, 2010).

The mechanism on the basis of which this approach to reward management is developed offers substantial advantages and benefits to employers; flexibility and simplicity are clearly the most evident and valuable. However, spot rates and salaries, as well as pay rates, need to be managed with extreme care by employers. Since these methods are not actually based on any scientific evaluation exercise, they manifestly leave room for equal pay claims, which could eventually hardly be sustained and justified before a court.

It is interesting the point made on the subject by the Lincolnshire County Council. As mentioned above, the Council applies spot rates both to the Chief Executive and Executive Directors roles and to the Fire and Rescue Senior Managers roles. Within the definition of Senior Management, to the extent of defining its relevant pay structure, actually also falls the roles of Assistant Director. Also for the positions in question hence no scope for progression is taken into consideration. All-in-all, according to the Council, this accounts for the spot rates being considered "one of the least discriminatory" pay approaches. Indeed, at director and executive-level roles it can be agreed with the Council that, since individuals covering those important roles are paid a given rate since the very beginning and no pay progression, which may distort the pay structure, is considered, the structure is fairly sustainable also in terms of equal pay legislation.

The Council's Executives pay structures is divided into three tiers, tier 3 contains the Assistant Directors pay grade, where five different points are included and equally applied to all of the Assistant Directors. Whether these five-point grade system should not have been supported by the job evaluation exercise, as it is in this circumstance the case, the attribution of a level of pay rather than another to an Assistant Director could have potentially exposed the employer to equal pay claims risks. The overall Executive structure can hence be considered as a mix of a spot salary and a job grades approach in that the Assistant Directors tier 3 provide scope for pay progression within 5 pay levels. The structure can however be considered non-discriminatory by reason of the support provided by the job evaluation exercise, which is used to *scientifically* attribute the right grade to each Assistant Director and manage pay progression throughout the tier.

It is worth mentioning that findings of the CIPD Reward Management survey carried out in 2011 (CIPD, 2011) revealed that individual spot rates, spot salaries and pay rates, used in combination or isolation, with a 30.1 per cent score, represented the UK employers favourite approach to base pay.

Individual pay ranges, job ranges and salary ranges or grades

These methods to individual base pay management basically represent an advanced version of the spot rates and spot salaries approaches. The most distinguishing feature of the former vis-à-vis the latter is that pay, job and salary ranges are not associated with a specific, well defined and unique pay level as it is the case for spot rates and salaries. Under these schemes, hence, individual pay is included within a grade range and can thus be subject to changes over time according to a person accomplishments and achievements.

Differently from spot rates and salaries these arrangements provide employers flexibility in individual base pay management within a given range or grade, without any need to necessarily having recourse to a grade progression. Indeed, these methods provide employers more flexibility in pay progression than more formal and traditional pay structures.

Like individual spot rates and salaries these schemes can both be associated with jobs and a single person and can give hence rise to equal pay legislation-related problems and expose employers to considerable legal risks. Notwithstanding, allowing employers scope for salary progression within each given range, these approaches should be considered preferable vis-à-vis individual pay rates and spot rates arrangements (CIPD, 2013a). Albeit this invariably depends on the circumstances.

In general, individual pay arrangements offer employers greater flexibility compared with any other more conventional and traditional pay structures, however, as we have seen above, these are more likely to expose employers to equal pay claims, which is the reason why public sector employers do not usually have recourse to this method to base pay management.

Pay spines

Pay spines structures are typical of public sector employers and fairly widespread in local government offices, colleges and universities. Findings of a survey carried out by the CIPD in the UK (CIPD, 2011) revealed that pay spines are used to manage base pay by 22.6 per cent of employers. Putting aside the private sector, pay spines represent the dominant method, nearly at every level, in the public sector where these are used by 64.15 per cent of employers. Their usage, with a 37.3 per cent rate, is also rather diffused amongst voluntary and non-for-profit organizations.

Whereas individual pay arrangements are usually contrasted by Unions in that lacking of transparency; by contrast, pay spines, where pay progression is typically associated with length of service, are in general favoured by these. Additionally, these arrangements are supposed to provide and ensure stability to employers' salary costs and as such better meet the public sector employers' needs.

These structures mechanism is based on a sequence of progressive pay points expanding from the lowest to the highest pay structure's grades. Increments between ranges can be either constant throughout the overall structure or differ at different points. As mentioned above, in general, progression to the adjacent point is based on length of service; however, in some cases employers can grant individuals additional spines' point increases, or anticipate these, on account of merit and contribution grounds (Armstrong, 2010).

Pay spine structure

Salary	Spine Point
£59,000	50
£58,500	49
£58,000	48
£57,500	47
£57,000	46
£56,500	45
£56,000	44
£55,500	43
£50,000	42
£45,500	41
£45,000	40
£44,500	39
£44,000	38
£43,500	37
xxxxxx	xx

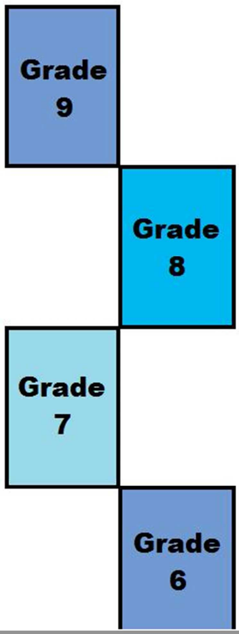

Table 36 – Pay spine structure

From the management point of view, this approach to base pay management is the most straightforward to administer, that which requires fewer efforts to be executed and that which is less likely to give rise, if any, to equal pay claims. Being pay progression merely service-related it is actually very unlikely that this type of schemes and their mechanism might not be easily understood by individuals. Yet, the scheme is not prone to favour biased pay progressions, leading to nearly zero chances of pay drifts and unjustified pay increases. The only exception is represented by those cases in which additional and/or anticipated pay spines increases are granted to some employees to reward outstanding achievements and contribution.

The ease of introduction, execution and management of this structure, however, cannot necessarily be associated with effectiveness and cost reduction. Rewarding people and increasing their pay just because these are loyal to the business, irrespective of their contribution to the organizational success and of their merit in fact does not clearly represent the most efficacious approach to organizational effectiveness. Furthermore, the circumstance individuals are aware that their pay is essentially subject to increases based on length of service only, might sooner or later prompt also quality staff and good performers to rest on their laurels, especially whether within the business some individuals may constantly underperform or use to exceed in terms of unjustified absenteeism.

The circumstance that pay increases are exclusively service-based can also encourage employees, especially those who do not intend or are not interested in performing well, to hold the post until retirement. In such a circumstance, a concern will inevitably find itself, at one point, in the position to pay the highest rates of salary to the less performing individuals. This clearly is an extreme option, but not completely impossible to occur in practice. Ideally, even though a pay spines structure is in place, employers should try to keep at the minimum the rate of increase between the pay spines forming the structure on service related grounds and offer additional increases to quality staff and good performers. This will help individuals understand that employers mainly aim at fostering employee contribution and reward merit, rather than awarding people just because still holding their posts.

Reportedly (CIPD, 2011), pay spines are most widely used for technical/professional roles (26.9 per cent), whereas for clerical/manual workers (24.8 per cent) pay spines are marginally more frequent than individual methods (23.7 per cent) or broad-banding (22.2 per cent).

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PART THREE

Variable Pay

Section XII
Variable reward schemes

Contingent and variable pay

Whereas fixed pay is contractually offered by employers to employees for their working activity, regardless of the quality and level of their contribution and performance and of the results produced by these, contingent and variable pay are awarded by organizations to individuals only whether some requirements and predetermined targets have respectively been fulfilled and met.

The Oxford Dictionary defines the adjective *contingent* as referred to something “subject to chance, occurring or existing only if certain circumstances are the case” and dependent hence on something else. Contingent pay can therefore be deemed as the component of a reward package whose payment actually depends on something else to occur and which cannot therefore be taken as axiomatic by the individuals concerned.

The adjective *variable* is instead defined by the Oxford Dictionary as: “not consistent or having a fixed pattern; liable to change and able to be changed or adapted”. The idea of variable pay could consequently be associated with the component of pay which, differently from fixed pay, might be subject to change and adaptation over time. Indeed, in the concept of variable pay is also included the option that, the case being, this component might entirely be removed from the overall financial reward package received by an employee; albeit this is not always an easy feat to achieve in practice by reason of the legal-related constraints.

Both adjectives are associated with the idea of variableness and unsettledness and the difference between the two essentially seems to mostly be identifiable in terms of nuances. The adjective contingent specifically links changes to something to occur, whereas the term variable only stresses the likely circumstance that changes may happen. Indeed, from the reward management point of view, it can be contended that, in any case, both variable and contingent pay depend on or are directly linked to the occurrence of some other events or circumstances to happen.

Variable reward schemes

As suggested by Armstrong (2010), the difference between the two forms of unsettled pay can essentially be identified and described on the basis of the different reason for the additional component of pay being offered to a person.

Contingent pay

Money supplements in the form of unfixed pay can be offered to individuals both for the level of knowledge, competence, expertise and skills these have acquired and for their outstanding performance and superior contribution to organizational success. Both cases represent forms of contingent pay, meaning by that that in both cases an additional component of financial reward is offered to individuals only whether some specific events occur or under specific circumstances.

In general, but neither necessarily nor exclusively, the additions granted to individuals in the form of contingent pay for their qualities can directly be consolidated into base pay. Whether individuals' base pay rate is determined according to employee capabilities, skills and expertise this is usually called person-based pay (Armstrong, 2010). In this case despite the payment of a financial reward supplement is linked to the existence of some specific requirements or prerequisites, this is actually immediately consolidated into base pay in that such elements have been or have presumably been assessed before the beginning of the working relationship and once gained by individuals these qualities are deemed to stably rest with them.

These kinds of additions, once consolidated into base pay, do not need to be re-earned; by contrast, since individual outstanding performance and superior contribution might not be repeated in the future, employers usually avert to consolidate into base pay extras offered to employees on the basis of such occurrences.

It emerges therefore that contingent pay, according to the reason for this being offered to individuals, can be consolidated into base pay or otherwise.

Variable pay

Variable pay can be defined as the component of a financial reward package which is offered by employers to individuals for the attainment of pre-set and pre-identified targets and objectives. In this case additions tend to invariably be kept separated from base pay in that exclusively linked to events which will not necessarily occur in the future. In order to be repeated, this type of additions needs therefore to be re-earned every year.

Variable pay essentially constitutes another form of contingent pay, also in this case in actual fact money supplements will be paid whether and only if some specific events occur. The conceptual distinction between the two different types of unsettled pay is actually rather blurred; this is why, possibly just in order to avoid falling into the terminological trap, some Authors (for instance Torrington et al, 2008), simply and more in general refer to variable and contingent pay as incentives. Indeed, perhaps exactly for the same reason, Suff and Reilly (2004) maintain that payment-by-results, performance and financial participation schemes can all be considered forms of variable pay.

Variable reward schemes

The existence of variable and contingent pay schemes clearly implies organizations to have in place sound and effective ways to assess and measure performance, contribution and objective-attainment in order to be properly managed. As we will discuss later, measuring these variables actually represents a difficult feat for the managers concerned. Albeit employers can hardly determine the worthiness of contingent pay without having recourse to a whatever form of performance assessment, some employers have identified and are trying to test some alternative methodologies in order to determine their staff pay. One of these is based on a general assessment of: the individual's potential and performance, the consideration of his/her colleagues level of pay and the identification of the likely rate of pay he/she would receive whether working with a different employer in the same market (Armstrong, 2010).

The most traditional form of contingent pay, and the less effective indeed, is represented by the service-related pay method. According to this approach pre-set pay increases are annually paid to employees only on the basis of their length of service. In this case hence the occurrence on which pay increments are determined is simply represented by the circumstance that an employee is still holding his/her post.

Findings of CIPD (2011) research revealed that whereas this approach is practically deserted by the private sector services (8.3 per cent) and manufacturing and production employers (1.8 per cent) it is still rather widespread amongst public sector employers (57.0 per cent) and voluntary, community and not-for-profit organizations (22.8 per cent).

The scope of contingent and variable pay

As discussed earlier, the psychological contract, albeit unwritten, can be considered as every other type of covenant a synallagmatic, bilateral contract. Following its hypothetical signature it becomes hence binding for both parties which, as a consequence, assume mutual rights and obligations.

The psychological contract is essentially underpinned by a reciprocal promise: on the one hand employees pledge to be loyal to the employer and to work with diligence and care; on the other hand employers undertake to respect and adequately pay employees for their work. Indeed, employers, on the basis of the psychological contract, vow to pay a salary, that is, a base pay or fixed salary to staff for their contribution to the production of the business output. Whereas some employees should demonstrate to have gained some additional skills, expertise and knowledge employers will promote these to a higher job level or grade, complementing this move with a larger base salary and eventually a higher degree of responsibility.

According to this viewpoint, both contingent and variable pay should not therefore be regarded as part of the psychological contract. In theory, base pay should hence be considered satisfactory by employees in exchange for their work; in practice, however, contingent and variable pay have firmly become part of every reward package and as a consequence indirectly part of the psychological contract too. Irrespective of the way these are offered to individuals every employee does not consider a job offer on the basis of the base salary only, but rather on the basis of the overall value proposition or total reward package offered by an employer.

But whether base pay is, or should be, sufficient to reward people for their contribution to a business output, why employers offer to employees additional sums of money in the form of supplements? Essentially because, inasmuch as base pay is used to reward individuals for their standard, average or ordinary contribution, contingent and variable pay are by and large employed by organizations to reward and recognize individuals' outstanding contribution, above-average performance, competencies and achievements. The reason why employers are offering individual pay additions and supplements in the form of contingent and variable pay is hence that to encourage and foster superior performance, professional development and higher levels of employee involvement and participation.

Indeed, over time employers' intent to have recourse to rewards has steadily broadened. So that contingent and variable pay, by means of the different formula and schemes it can be provided to staff, is the more and more used by organizations not only to encourage sustained and outstanding performance and participation, but also to engage and motivate individuals, enhance their commitment, influence their behaviour and attract and retain quality staff.

Reward can thus be considered somewhat of an endogenous and exogenous form of marketing. In this case, however, employers' intended objective is by no means that to sell any goods or item, but rather to influence people behaviour, also in terms of performance, avert quality staff to leave the business and encourage external talents to join the firm. By means of a differently formulated reward-mix employers offer employees not what they like to offer, but what individuals are expected and would desire to receive. Additional cash, as we have seen and as we will further see, is not necessarily and invariably what individuals want in addition to their base pay, but, even though in different proportions and differently according to the changing circumstances and the different stages of their lives, money invariably represents part and even a not negligible part of the ideal reward package individuals aim to receive.

Whether, and eventually to what extent, employers are successful in the attainment of their intended objectives clearly depends on the circumstances, on the effectiveness and consistency of the total reward packages they offer to their employees and on how successfully these will be able to meet individuals wants and expectations. Managing rewards, in order to achieve their intended aim, clearly represents a fairly tricky feat for employers and managers as well. Total reward and the bundling effect on which this approach relies can actually help, but organizations need to have clear ideas on what specific objectives they want to pursue from the outset and consistently identify the most suitable means to be used in order to attain the intended results. The final outcome and the overall success of such initiatives depend on how well businesses formulate, communicate and manage their value proposition, on how effectively results are monitored and on how promptly the eventually required amendments are introduced.

Variable reward schemes

Performance-Related Pay

Essentials of Performance-Related Pay

One of the most used and at the same time contentious approaches to contingent pay is definitely represented by performance-related pay. A survey carried out in the UK by e-reward in 2009 showed that 84 per cent of respondents having recourse to contingent pay schemes used performance-related pay methods.

The mechanism of performance-related pay programmes is essentially based on linking pay increases directly to individual performance and results. This method enables employers to reach increased level of organizational performance and, by assigning as far as possible to individuals targets directly contributing to the achievement of the organizational goals, to increase chances to attain the company objectives.

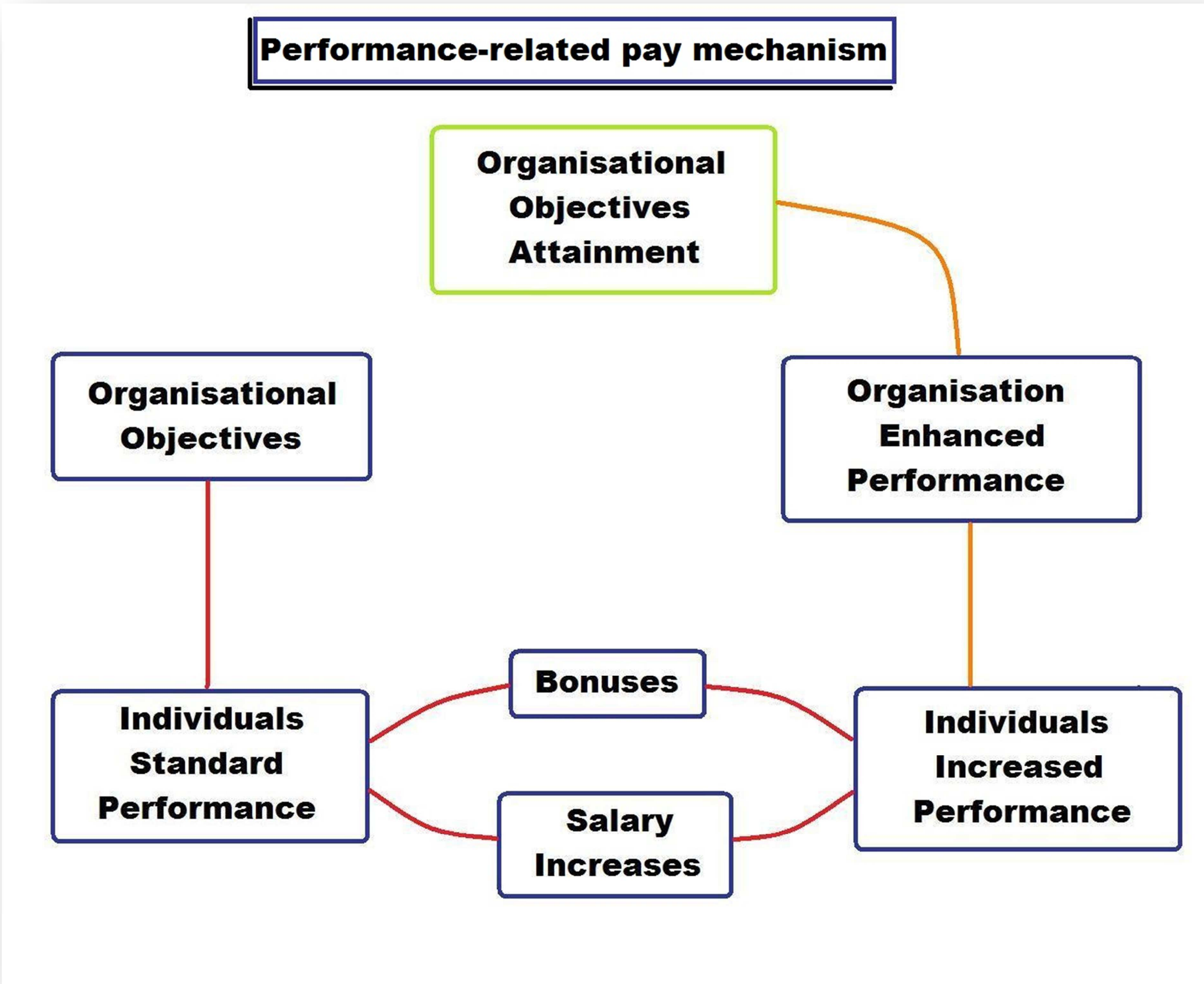


Table 37 – Performance-Related Pay Mechanism

The performance-related pay approach takes as axiomatic that two specific activities can and are hence carried out by employers; more specifically:

a) That a set of "pre-agreed objectives" have been clearly identified (CIPD, 2012),

b) That these can objectively be measured over a pre-defined period of time, usually identified with a year (Torrington et al, 2008).

The financial award granted on the basis of a performance-related pay scheme implementation can either be consolidated into base pay or awarded by means of non-consolidated lump sums. According to these arrangements cash supplements can therefore be offered both in the form of pay progression and bonuses (CIPD, 2012).

Making the case for introducing performance-related pay programmes
Thanks to the several objectives it might enable, at least in theory, employers to achieve, performance-related pay actually appears to be a particularly attractive approach to manage reward budgets. As suggested by Torrington et al (2008), performance-related pay can help organizations to:

- ✓ Attract and retain good performers;
- ✓ Rise individuals and organizational performance targets;
- ✓ Make clear individuals roles and tasks;
- ✓ Identify and agree with employees opportunities for development;
- ✓ Reward employees avoiding to necessarily giving them career advancements.

Albeit Torrington et al (2008) also list staff motivation enhancement amongst the likely benefits provided by performance-related pay, the existence of a direct cause-effect relationship between these arrangements and increased levels of motivation cannot be taken as axiomatic. The CIPD (2012), for instance, considers the establishment of such a link questionable.

It is actually rather tricky establishing, at least in abstract terms, whether a direct line of sight between performance-related pay approaches and motivation can plausibly be identified. Considering motivation as a reason, that is, a motive for individuals doing something or otherwise and that the effects of performance-related pay approaches are basically associated with financial benefits, the conclusion should be that such a relationship should actually be rather unlikely to exist. Notwithstanding, it should also be considered that the hygiene characteristic of money is usually associated with the medium to long run, whereas it is widely acknowledged that money might produce some impact on motivation in the short term. Since performance-related pay schemes are typically associated with spell of time covering a year, it cannot then be completely excluded that, at least in theory, these arrangements may be productive of some positive impact on individual motivation. Nonetheless, this cannot clearly be considered as a universal rule in that it actually depends on the circumstances, or rather, on the fact that these approaches are used or introduced in presence of the favourable conditions. As will be seen later analysing this approach from the empirical point of view, over the years research has produced contrasting results.

Notwithstanding, performance-related pay approaches can turn to be particularly effective for helping employers to foster and embed in organizational culture the concepts of high-performance, equity and fairness (CIPD, 2012).

Variable reward schemes

According to Arrowsmith et al (2008) and Marginson et al (2008) performance-related pay schemes, reinforcing communication of organizational aims and making it easier for managers monitoring strategic objectives, can enable employers to attain a more positive outcome in terms of performance management. The Authors also highlight the impact that performance-related pay schemes can have on curbing personnel costs. Developed in association with low base pay schemes in fact the variable elements of pay could be controlled by means of the organization's profit.

One of the consequences usually associated with the introduction of performance-related pay schemes is the development and reinforcement of individual employee relations to the detriment of the collective ones (Torrington et al, 2008). This point is, to some extent, also linked to the harmful effects produced by the implementation of these arrangements upon the bargaining power of trade unions officials within organizations.

Essentially based on a meritocracy approach, that is, a tenet according to which best performers should be rewarded better than those who have not contributed as effectively as these to the attainment of organizational objectives, performance-related pay should definitely represent the most sought approach by employees and managers as well.

Linking salary to performance these arrangements should ultimately be perceived as the best approach to reward by everyone. As suggested by Behn (2004), it is actually hardly imaginable linking pay to any other element, let alone could that element be identified with length of service or "longevity", which is the element traditionally taken into consideration by the public sector employers. Regardless of the way financial recognitions are granted, these should be offered to best performers rather than to individuals who, for instance, have simply worked for the organization for a longer period of time. In the latter case the employer would seriously risk putting in place "the wrong incentives" (Behn, 2004) and communicating the wrong message.

The underpinning principle of this approach could therefore be considered based on the glaringly obvious and it could hardly be argued that this approach should not be pursued by organizations aiming at enhancing their overall organizational performance. As suggested by the CIPD (2012) in fact performance-related pay actually represents a proper means to effectively link individuals reward to business aims and objectives or, in the Torrington et al (2008) words, a method enabling employers to "ensure that organizational priorities become individual priorities" (Torrington et al, 2008).

Once again, managers' role is crucial. According to the tasks carried out by each individual within the organization, as far as applicable, they will need to include amongst their direct reports' objectives organizational objectives. Such an approach would indeed enable organizations to drastically increase the chances of attaining their intended results and hence organizational objectives (Torrington et al, 2008).

Mismatch between performance-related pay design and execution

Although in theory the performance-related pay approach should represent the most effective means to reward people within organizations, it usually causes a great deal of troubles and difficulties when implemented in practice. It is indeed by reason of all these difficulties that the approach has attracted fierce controversy ever since it was developed and introduced within firms.

As suggested by Torrington et al (2008), controversy surrounding the recourse to this approach is mainly based on the mismatch between its theoretical development and its practical implementation. Of the same opinion clearly appears to be Armstrong (2010) who maintains that the effectiveness of this approach can be considered questionable, in that, especially when it was firstly introduced, it failed to fulfil the expectations it had created, namely in terms of contributing to the successful implementation of projects aiming at introducing organizational culture changes. As habitually happens, the main problem is associated with execution, rather than with the design and development phases of the approach. In many circumstances, nonetheless, failure has also been directly caused by the application of the wrong approach in the wrong circumstances.

So interesting this approach is in essence that it has also attracted, over the years, the interest of public sector organizations. The debate about performance-related pay effectiveness within the public sector exploded anew in the UK, at the end of the last decade, when it was suggested this approach to be applied to public schools teachers (Torrington, 2008).

Arguments against performance-related pay

Both in the 1980s and 1990s, just when businesses were starting to appreciate this approach, performance-related pay become object of sharp criticism from many sides.

Occupational psychologists questioned its motivational effects, others considered it as a new way of sustaining pay gender inequality, whereas sociologists and management theorists highlighted the performance-related pay features contributing to make it a more invasive management control means basically aiming to enhance hierarchy rather than individual autonomy within organizations (Torrington et al, 2008). Yet, performance-related pay approaches essentially imply and take as axiomatic that individual performance can objectively, accurately and fairly be measured, which is not really a so straightforward result to attain in practice.

This approach’s underpinning concept entails that the different rewards offered to each individual should be justified on objective grounds, namely on the basis of the results produced by each individual, which should be in turn hence directly linked to the level of pay these receive. All of that makes sense as far as it could be taken as axiomatic that individuals will be willing to go the extra mile and increase their level of performance in exchange of a more attractive financial reward package (Armstrong, 2010).

The preconditions for a successful performance-related pay system implementation are to some extent self-explanatory and essentially expounding why what has been even carefully designed and planned in theory is prone to fail to achieve the intended results when implemented in practice.

Variable reward schemes

With the exception of those cases in which the results yielded by a work activity can accurately, quantitatively be measured, achieving a fair and objective assessment of the result produced by every single individual working within an organization definitely represents an utterly tricky feat to achieve in practice; especially when the results of such measurements should directly be converted into financial rewards, which requires and calls for draconian accuracy.

Furthermore, it cannot be neglected that individual performance will be, or rather, should be evaluated by line managers who, for different reasons, could be unable to fairly assess their direct reports results. The first motive for this could be caused by line managers assessment been affected by bias or partiality. It is in fact unlikely that line managers could actually be able to fairly and equitably assess their direct reports work whether these have some prejudices against some of their staff. Yet, as suggested by Torrington et al (2008), in some circumstances line managers could be prone to deliberately manipulate their direct reports appraisal for political reasons. According to the effects they feel their assessment may produce on some of their direct reports awards and career prospects, line managers could be tempted to tailor their judgements accordingly. In such circumstances, low and high ratings are craftily avoided at large in that likely to impact interpersonal relations within the unit or group.

To this extent, Boddy (2008) reports the case of a voluntary sector organization where, as a consequence of the introduction of performance-related pay arrangements, performance appraisal scores tended to be "on the overly generous side." This surely had an evident impact on the organization personnel budget, but no such an evident improvement was recorded in employees' motivation and in individuals and organizational performance whatsoever.

Also line managers' shortage of capabilities and specific training, as well as their lack of authority, can seriously jeopardise the successful implementation of the process. In some cases even exactly determining who has to make the final decision can reveal to be sorely tricky. Despite habitually every employee usually has only one superior, in those cases, for instance, when people work in teams and projects, individuals might have more than one manager, with the "official manager" possibly having little or no direct knowledge about the performance of each individual involved in the team. In such cases, assessing individuals performance, and hence the impact of this on their pay, is clearly everything but straightforward (Behn, 2004).

The problems caused to the overall scheme implementation by the line managers assessment of their direct reports performance, can indeed also be due to the lack of uniformity when these approach their task. The circumstance that some line managers could be more generous than others will in fact inevitably undermine the consistency of the scheme and affect the perceptions and hence the motivation of those who feel of having been treated unfairly (Torrington et al, 2008).

Line managers' performance rating activities in some cases can also be affected by budgetary limitations. Although in this case line managers are just executors of the directives received from the organization top management, they will nonetheless appear to their staff as treating people unfairly. In such circumstances, in order to limit the impact of performance-related pay schemes on the business budget, line managers will practically deliberately underrate excellent performers results (Torrington et al, 2008). This would in turn inevitably lead to flattening their direct reports performance ratings to the detriment of the excellent performers, who will be the most affected by such an approach.

Budgetary constraints can emerge also in a different way, for instance, limiting or reducing the number of individuals that can be considered eligible for pay increases or bonuses. In those cases in which the number of people genuinely deserving the financial supplement should exceed the limit dictated by the top management, the effects produced by these measures will, to put it mildly, be counterproductive (Behn, 2004).

The harmful effects performance-related pay is likely to produce when businesses are experiencing difficult times, namely in the case when salary budgets can, at best, be increased by just a very low rate by employers, is also stressed by the CIPD (2012), which warns employers of the demotivating effects which such an approach can produce under these circumstances.

According to Murphy and Cleveland (1995), it is extremely difficult establishing how reliable and representative of individuals performance are the ratings expressed by their managers. This conclusion is supported by the findings of a study carried out by Viswesvaran et al (1996), which revealed that the mean inter-rate reliability of performance ratings awarded by line managers is a modest .52.

Considering the impact of performance-related pay arrangements on individual motivation, it is definitely worth mentioning that, with specific reference to the main features associated with the expectancy theory, that is, expectancy, valence and instrumentality, research has produced mixed and contrasting results. In those cases in which objectives were clear and compensation adequate, performance-related pay schemes produced valuable results; whereas, in the majority of the other cases investigated the underpinning elements of the expectancy theory remained unsatisfied (Perry et al, 2009).

Some research (Daley, 1987) has revealed that individuals did not perceive any considerable relationship between performance and pay, whereas other studies (Pearce et al, 1985) found out that individuals were even wary that salary increases should have been received depending on their level of performance. The relevance of employees trust on the organization they belong to clearly came here to play.

As anticipated above, still remaining in the domain of the expectancy theory, also valence, that is, the worthiness of reward and the importance individuals attach to it, has its significance. The reward increase of a 3 per cent of base pay usually associated with these schemes, can hardly be considered attractive (Armstrong, 2010). This conclusion has been confirmed by different empirical studies, amongst these that carried out by Heinrich (2007) whose findings revealed that financial reward premiums associated with performance-related pay schemes were too small to be considered appreciable and valuable by respondents.

On the other hand of it, in those situations in which financial incentives are considered rather significant by individuals, performance-related pay arrangements could push individuals to focus more on the aspects of their job which are more closely related to pay increase, whilst paying lip service to the other aspects, not less important, of their job (Torrington et al, 2008).

Still considering the relevance of the expectancy theory, it has not be overlooked the fact that this theory is based on the main assumption that individuals have different needs and differently value outcomes; this will consequently imply that, at best, not everybody will be eventually attracted by salary increases in the same way.

Another likely reason for performance-related pay schemes failure is associated with the blurred link existing between performance and achievement of the particular outcome or result accounting for the additional payment (Armstrong, 2010). This point can, nonetheless, be considered of secondary importance, because even though it cannot be denied that a more direct link between accomplishment and premium might possibly foster motivation, it is also true that a manager should always have the opportunity to communicate with and explain to the employee concerned that that reward has also (or exclusively) been granted on account of the achievement of a given feat.

Individual performance-related pay schemes can practically lead to an individualistic approach to work, to the detriment of teamwork. Employees will clearly tend to focus more on those activities enabling them to earn more appreciable reward packages, to the detriment of cooperating and teaming up with colleagues.

Another flip side of these arrangements is represented by the counterproductive effects on motivation these might produce the moment line managers unveil their staff ratings. Those who will receive higher or positive ratings will obviously feel happy for the recognition they receive, and this is not necessarily associated with the financial aspect linked to performance-related pay, but also to the "simple" circumstance of having been positively rated. Vice versa, those who have received negative ratings will clearly feel disappointed for their contribution not having been considered valuable; the fact of receiving or not receiving additional cash would just contribute to make things harder. Yet, these employees could also disagree with their line managers for the rating they have received, which they could consider unfair especially vis-à-vis the other colleagues' ratings. Such circumstances can have pernicious effects on these individuals motivation and their effects can even be more harmful for organizations in that very often these people are the most loyal and valued within their units despite not being top performers (Torrington et al, 2008).

In order to avert such circumstances to occur and be controlled, line managers very often prefer to avoid conceding low or no financial recognition to their direct reports. The consequence of that is nonetheless considerably detrimental for two different reasons. Firstly, this approach would clearly lead to a situation in which best performers and worst performers will be rated within a very narrow scale; producing in turn two negative effects: on the one hand worst performers could consider pointless going the extra mile in that they already receive the same, or virtually the same, salary increase or bonus received by those who have achieved better performance levels making extra efforts; on the other hand such management behaviour would be perceived as unfair by the best performers who would consequently lose faith in their management and in the way they treat people.

Secondly, this management approach will surely remarkably impact organizations personnel budgets. Employers will in fact find themselves in the situation to spend more with little, if any, justification for a better ROI.

Amongst the factors negatively influencing the effectiveness and successful implementation of performance-related pay schemes it also needs to be considered the fact that, in some circumstances, employees' work and its result is influenced by factors which are beyond their direct control. In such cases, the reasons for individuals failing to attain the expected results could not directly be ascribed to them.

Nowadays, change processes are executed at a growing frequency within firms so that in many circumstances individual objectives can be affected by these procedures. What can be considered as an organization's priority and main aim today cannot be considered so important just a few months later or, taking it to extremes, even later today. Differently from what suggested by Torrington et al (2008), nonetheless, this should not necessarily have a considerable impact on individuals' performance assessment. This basically for two different reasons: firstly because the circumstance that organizational objectives, and hence individuals' objectives, may change does not consequently entail that individuals performance could not be properly assessed and evaluated, after all performance-related pay aims to reward performance; secondly because organizational changes will lead to change individuals objectives, but not to prevent organizations to attain some of them. Once organizational objectives have been amended, these can in turn be changed to individuals accordingly. Although this could reveal not to be utterly straightforward, change procedures should not represent particular barriers for performance-related pay schemes successful implementation at large. Changes are becoming the more and more frequent in organizations day-to-day management and managers need hence to learn to get along with these and the side effects these are likely to produce, but not to the detriment of the employees' correct appraisal.

Performance-related pay arrangements are also considered inhibiting individual creativity and desire to find new and alternatives ways to do things within an organization. In a bid to increase their financial reward packages people would tend to focus on what they need to achieve and not on how they could better achieve the intended outcome and results.

One of the most negative effects of these approaches, nonetheless, relates to individuals' personal growth and development. When performance levels directly impact employees' salary, individuals tend actually to minimise and conceal their weaknesses during the appraisal meetings (Torrington et al, 2008). This clearly prevents employees and managers to have an open dialogue and, therefore, to eventually determine individuals' needs for training and improvements. As suggested by the CIPD (2012), this pernicious effect can be avoided keeping separated pay review and performance assessment from development and growth plans; typically holding meetings aiming at assessing and reviewing the two aspects in completely different and separate occasions.

The criticism attracted by performance-related pay schemes, nonetheless, very much depends on the assumption that people are all motivated or mostly motivated by money. It seems that the money factor would be at the centre of individual attention, insofar as to influence, control and guide individual actions and behaviour. That is not actually invariably the case and this is indeed why in many occasions performance-related pay schemes have failed and, at the same time, this is also why this approach when developed and executed in presence of the right circumstances and in combination and synergy with other initiatives can produce positive results.

Defining internal performance relativities

Although the most difficult task commonly associated with performance is identified with its quantitative measurement, determining the relevance of internal relativities in terms of performance may reveal to be of paramount importance too.

In some cases organizations might be able to grant a salary increase or a bonus only to a predetermined maximum quota or rate of people working in the different units available within the organization. This does not mean that organizations know in advance to whom they would grant salary increases or bonuses, but that these will not be able to grant these additions to an unlimited number of employees working within the organization and its different units.

In every unit people obviously deliver different activities which require different capabilities and skills in order to be properly and effectively carried out and which are, very likely, differently contributing to the overall performance of the unit and hence to the attainment of the organizational objectives. How should managers decide to whom offer a financial reward and how these different individuals having different levels of capabilities, expertise and skills should consequently be rewarded? Yet, should all the individuals be rewarded equally, irrespective of their different skills and capabilities?

Conceding rewards or higher rewards to some of the employees on the basis of the activities these carry out will possibly prompt other individuals asking to be transferred to the units whose members are receiving rewards or more generous rewards. This would actually not be a problem of its own, because this might very likely entail that people are concerned with growth and development. These transfers to be executed require individuals to be previously trained and hence expanding their skills. Notwithstanding, organizations will still clearly need also people performing the other type of activities. Yet, not all of the activities having a more immediate impact on the attainment of units and organizational objectives are those which necessarily require a higher level of expertise or skills, it clearly depends on the situations.

A good example of the way such circumstances can occur in practice is provided by Behn (2004) who compares apple pickers with orange pickers. In case of constraints imposed by the employer, how should a manager decide to whom offer a salary increase? Orange pickers should possibly be entitled to receive the addition because oranges contain more vitamin C, but this would cause that especially best performers of apple pickers will ask their managers to be transferred to the orange pickers unit. Whether it is important for the employer also having a good team of apple pickers, this should also plan for some salary increases or bonuses to be offered to some individuals working in this unit too.

The problem is not only associated with the different tasks performed by individuals, but also with the different contribution each member of a unit can make for the attainment of the final outcome produced by the unit as a whole. Still considering the example suggested by Behn (2004), both in the orange and apple picking groups there will surely be at least also individuals in charge of packing and carrying boxes and holding ladders. Pickers might possibly carry out activities considered more important than that performed by packers and ladder holders, but what if packers would not be careful and quick as required? For more important the activity carried out by the pickers might be considered to be, without the effective support of packers, carriers and holders they will never attain their pre-identified objectives. Would that be appropriate and fair, in such circumstances, offer a salary increase to the pickers without conceding any salary increase to carriers, packers and holders? Yet, should pickers, holders and packers all be paid the same financial reward?

This example shows how performance-related pay schemes are difficult to manage both when these are designed and implemented in the form of individual and team programmes. However, reward managers and professionals have to be aware of the existence of such issues and, in order to avert a miserable failure, have to be prepared to deal with them from the outset.

Determining the valence of the contribution made by each role and team is an important exercise which become even necessary when the employer can provide limited financial resources to be shared amongst staff.

When performance-related pay arrangements can actually work

Performance-related pay approaches are practically beset with setbacks, criticism and past and present implementation failures. Notwithstanding, some studies carried out by Brown and Armstrong (2000), the IRS (2005a and 2005b) and the IDS (2005) show that these pay arrangements can be also successfully introduced and implemented within organizations. As these studies suggest, however, performance-related pay schemes are likely to work only whether a few fundamental preconditions are respected:

a) Schemes are properly managed and implemented;

b) This type of arrangements are introduced only in presence of the right and favourable circumstances;
c) The implementation process is carefully prepared and sufficient time is allowed prior of its practical introduction (Brown and Armstrong, 2000);
d) The programmes are managed in combination with and as part of the overall value proposition offered by the employer and not in isolation vis-à-vis the other forms of reward. All of that because this way employers can avail themselves of the synergetic effect such a method can produce and because its successful or unsuccessful execution can impact, negatively or positively, the other initiatives eventually put in place by an organization to motivate staff (Brown and Armstrong, 2000).

De Silva (1998) considers critical for the successful introduction and execution of a performance-related pay scheme the circumstance that it has to be considered part of a reward proposition where both financial and non-financial rewards are included.

As suggested by Torrington et al (2008) performance-related pay disgrace is actually in part due to having it been depicted in the past as a universally effective and powerful approach, capable of invariably producing dramatic effects on individual motivation irrespective of the circumstances; which is clearly far from being true.

Performance-related pay is not and cannot be considered as an effective one-size-fits-all approach, but rather as an additional tool employers can have recourse to, whether and when appropriate, in order to try to induce employee motivation. More in particular, the introduction of this type of arrangements can actually reveal successful in those cases in which:

- Individual performance can objectively be measured;
- Individuals have a complete control of the results yielded by their work and a precise line of sight between performance and reward can clearly be identified;
- Neither teamwork nor cooperation with other colleagues have significant effects or impact on the results produced by the single individuals;
- The existence of these conditions are justified and supported by a rather individualistic organizational culture (Gomez-Mejia and Balkin, 1992).

In a company fostering a culture based on teamwork and collectivist principles at large, such an approach would be clearly immediately perceived by employees as inconsistent, it would undermine the firm integrity and would be ultimately contrasted and resisted by staff.

According to the CIPD (2012), performance-related pay approaches are more likely to be effective in private sector organizations and even more in financial services organizations where having recourse to reward systems based on the performance-related pay mechanism represents basically the norm. Habitually, these arrangements are most likely to be used at managerial and administrative levels rather than at manual or shop floor staff levels.

Research has revealed that these programmes are more likely to be effective and successful in those organizations where goals are clearly shared and understood by staff, compensation is considered adequate and organizational culture supports merit-pay schemes (Greiner et al, 1977). According to de Silva (1998), also the existence within the organization of a performance management process, nonetheless, represents a mandatory prerequisite. The performance management process should, more specifically, ensure that some crucial activities have been prepared and carried out (IDS, 1997), amongst these, organizational planning meant as the definition of the objectives and the main skills required to effectively achieve them. Objectives will clearly be set according to the overall organizational strategy and aims and should appropriately be communicated within the business. The identification of performance measurement and of the ratings on the basis of which salary increases and bonuses are offered is clearly of paramount importance too. In order to this type of schemes be successful, performance management should also take into due consideration and wisely balance the individuals' aspirations and wants with those of the employer.

Once again, line managers' importance and full involvement in the process is crucial. These should be hence appropriately and thoroughly trained and ready to take responsibility to manage the performance management process.

The existence of a performance management process based on these pillars, coupled with line managers' real capability to properly execute it, can actually reveal to be crucial for the successful implementation of performance-related pay schemes. Their failure is in fact all too often due to lack of understanding or acceptance both of the pre-set objectives and of the way these have to be measured. Yet, as anticipated above, performance appraisal systems directly linked to performance pay and performance-related pay approaches exclusively relying on financial reward are amongst the most recurring causes for these schemes failure (de Silva, 1998). Providing individuals opportunities for personal growth, training and involvement, enable employees to expand their skills and capabilities, become more confident and hence perform at higher level and more effectively contribute to the achievement of the organizational objectives.

An additional important implication of these arrangements is represented by the more relaxed approach to recruitment it may enable employers to adopt. Firms having recourse to performance-related pay schemes tend to offer relatively more modest fixed salary in that the variable part of it, that is, that which needs to be re-earned, is depending on the organizational, individual and team results. In terms of personnel budget this implies that under a performance-related pay scheme employers normally pay lower fixed costs. The personnel budget is consequently increased only whether and when the organizational objectives are met, but in this case the profits made by employers will enable them to face the increased personnel costs without any particular difficulty. All of that accounts for employers being able to speed up the decision-making process whenever the need to recruit additional employees should arise.

This open approach to recruitment, nonetheless, is not completely free of drawbacks. The circumstance that employers may have recourse to a larger workforce in order to achieve their intended objectives would also consequently entail that the increased reward budget, letting profit share unchanged, should be divided amongst a larger number of employees; contracting, hence, the amount of the salary or bonus individuals would have received whether the total number of employees would have been kept stable.

Whereas these arrangements can enable employers to recruit a larger number of employees thanks to the reduced impact this would produce on the personnel budget, on the other hand employers should not overlook that this practice may cause in turn a rise of the overheads by reason of, for instance, facility and office space increased needs.

The reduction of the fixed personnel costs associated with this approach can also enable employers to less frequently or less immediately be prompted to make decisions about making staff redundant when experiencing hardships, for instance, by reason of slowdown and downturn periods.

From the personnel costs point of view, these are due to increase when performance and profit will so that it can be maintained that these arrangements are to this extent self-financed. As argued by de Silva (1998), such mechanism can also contribute to make employees aware of their businesses fortune and misfortune and contribute to individuals' identification with the organization.

Findings of an empirical study carried out in the Netherlands (Gielen et al, 2006) revealed that the introduction of performance-related schemes have a robust and direct positive impact over labour productivity (9 per cent). Supporting many of the conclusions reached above, the study also revealed that this increased level of productivity did not bring any contraction on businesses recruitment activities; on the contrary, the study also revealed that a 5 per cent long term employment growth was associated with the performance-related pay method introduction. The Authors also report a substantial increase of these arrangements popularity amongst Dutch firms, which they acknowledge not being however related to a widespread confidence amongst employers in the positive role played by this approach over productivity (Gielen et al, 2006). Nonetheless, the rate of Dutch organizations having recourse to these programmes has actually increased from 29 per cent in 1995 to 51 per cent in 2001 (the investigation covered organizations with more than 100 employees), with the most remarkable growth recorded within construction organizations (+55 per cent).

Performance-related pay design and implementation phases

Once organizational objectives have been defined and the assessment of the conditions for these arrangements introduction carried out, managers have to start identifying the objectives to be potentially set for each of their direct reports involved in the scheme with whom these will subsequently be discussed and agreed.

At this stage it is crucial ensuring that the likely goals can be all objectively measured, reviewed and assessed. Once this step has been carefully and thoroughly carried out, employers can openly communicate to their staff the mechanism of the scheme. Aim of this activity is to ensure that every individual concerned has crystal clear ideas about what performance-related pay is, how it actually works and how it will be operated by the organization and its line managers.

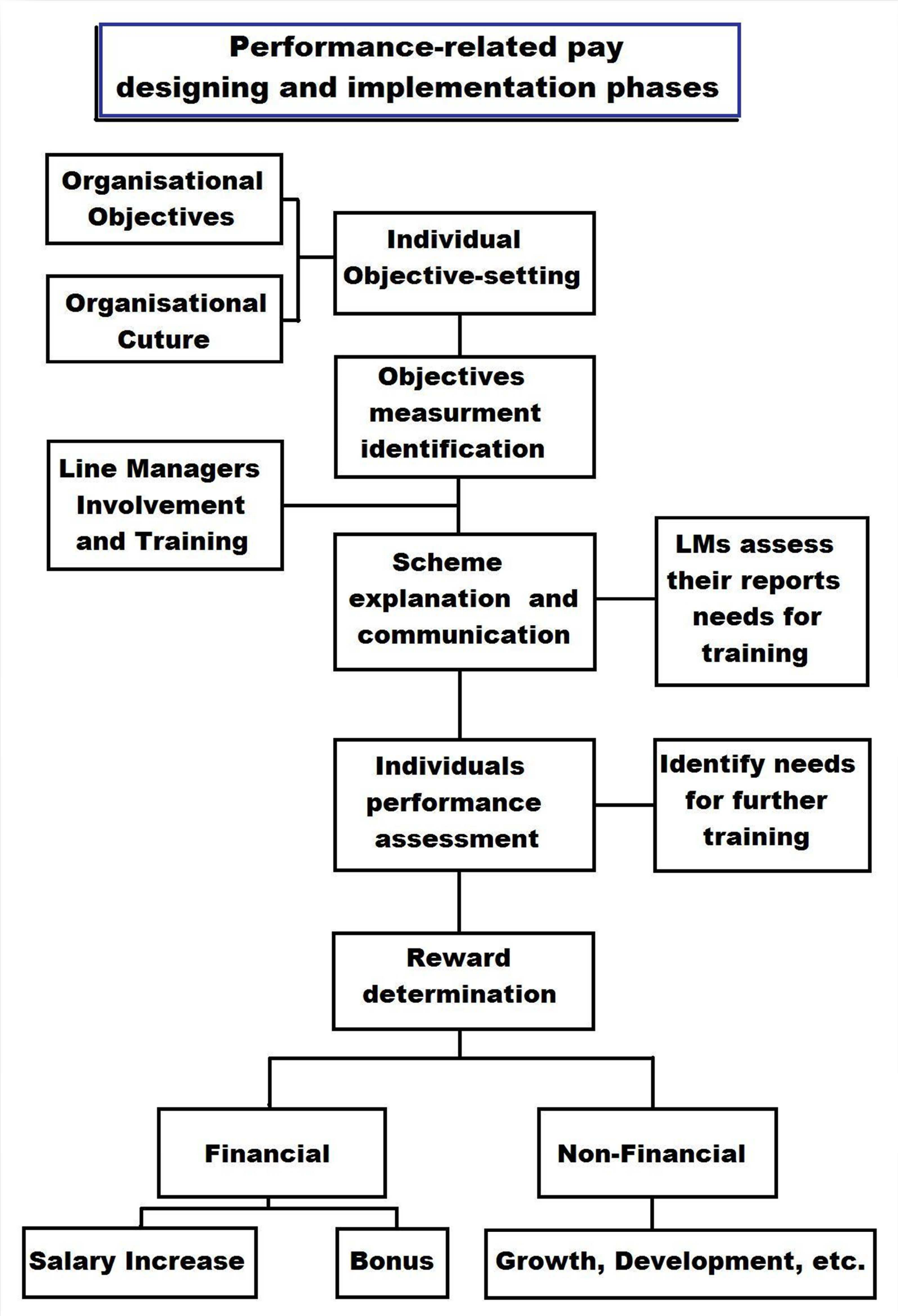


Table 38 – Performance-related pay schemes design and implementation phases

Once the measurement methodologies have been determined and the scheme has been explained to staff, managers can discuss and agree with their reports their individual objectives. In this occasion, if required, further explanations about the scheme can be provided to employees and, most importantly, managers can discuss with individuals whether these have the skills and capabilities necessary to attain the expected results. In the event this should turn not to be the case, managers will decide and plan with the individuals concerned the bespoke training programmes necessary to bridge the eventually emerged gap.

Line managers will clearly be trained to properly manage and handle the scheme before this stage is actually executed.

At the pre-identified frequency, individual performance will be assessed and the eventual need for further training evaluated by managers. At this point in the process, managers will be able to make decisions about the financial and non-financial rewards to be offered to employees.

Financial rewards can be offered either in the form of a salary increase or a lump sum (bonus) or a combination of both. Non-financial rewards will be mostly offered in the form of opportunity for personal and professional growth and career advancement. Training is once again very likely to come to play, but not with the intent of enabling individuals to more properly fill their current positions, but rather to prepare employees to manage more complex tasks and be able to fill roles encompassing broader responsibilities in the future. This plan of action can also clearly be considered as a part of a succession planning strategy.

Performance-related pay and the public sector

The outcomes produced by the introduction of performance-related pay schemes in public sector organizations at large are not that different from those produced by its introduction in private sector firms: sometimes the results are positive, whereas in some others cases the method fails to produce the expected results.

Notwithstanding, some specific and peculiar features typical of this sector can actually sometimes account for its implementation failure.

As argued by Behn (2004), in order to design and effectually implement a performance-related pay scheme, public sector employers should care about a lot of details which actually “matter a lot.” Constraints, both in terms of perceptions and expenditures, imposed by citizens on governments contribute to make it even harder for public sector employers introducing performance-related pay schemes whose details could be considered even close to the ideal ones.

Furthermore, the reward aspect of employee relations within public sector organizations has also become growingly harder to manage in an ever changing world where public sector employers are increasingly engaging in competition with private sector organizations and where the myth of a job for life is destined to completely vanish.

Variable reward schemes

The current state of play is actually characterized by contrasting needs and circumstances. On the one hand public sector organizations tend to abandon rewarding systems exclusively based on length of service, whilst on the other hand budget constraints makes it harder favouring a smooth transition to effective and consistent reward systems based on meritocracy.

There are indeed some good reasons for public employers aiming at introducing and developing performance-related pay schemes within their organizations. Among them, one of the most important is surely represented by the need for employers to increase the number of valuable alternatives these can have recourse to in order to motivate and retain quality staff. For decades, the only solution public employers could use to grant their staff salary increases has been actually exclusively represented by career advancement.

Moreover, by reason of the increased competition with private sector organizations, it is becoming the more and more important for public sector employers introducing reward schemes enabling them to attract more "dynamic and risk-taking" talents from the private sector (OECD, 2005).

Like in the case of the private sector, performance-related pay schemes offer interesting opportunities to public sector employers in term of cost containment. By means of these arrangements employers can abandon pay systems essentially based on automatic salary progression and start offering individuals pay increases exclusively based on the outcomes these produce.

The introduction of performance-related pay schemes within public sector organizations can also be supported by a sound political reason, namely to disprove the myth that public employees are overpaid and that all of them are bad performers. The introduction of such arrangements can provide externally, and indeed internally, evidence that also the civil servants work is monitored and that the results produced by these are constantly assessed and evaluated (OECD, 2005).

The governments which pioneered performance-related pay schemes introduction in any forms, in 1980s, were Canada, Denmark, the Netherlands, New Zealand, Spain, Sweden, the United Kingdom and the United States. A second wage started in the early 1990s in Australia, Finland, Ireland and Italy; whereas from the early to mid-2000s these arrangements were introduced in Germany, France, South Korea, Switzerland, Czech Republic, Hungary, Poland and the Slovak Republic. By the mid of 2000s more than two-thirds of OECD governments had introduced, at least in part of their public services, a performance-related pay scheme; even though it must be said that in many cases what it is defined in writing as a performance-related pay scheme practically fails to have consistent pay link with performance (OECD, 2005).

Also in the public sector, like in the private, monitoring and assessing performance represents a sorely tricky feat to achieve, not least because of the difficulty of identifying objective, measurable, consistent parameters and indicators. The most recurrent criteria used to measure civil servants performance are:

- Results achieved, assessed against the pre-set objectives;
- Technical skills;
- Competencies;
- Interpersonal skills;
- Teamwork capabilities;
- Leadership and management skills.

More recently, some countries have introduced less traditional and, to some extent, more stimulating indicators such as ethics (Canada) and innovation (Denmark) (OECD, 2005).

As anticipated earlier, in order to these schemes being successful, employers need to care about a lot of crucially important details, which accounts in turn for these schemes requiring remarkably huge resources. Regrettably, this circumstance is all too often underestimated by employers, hence the predictable failure of many projects.

The introduction of performance-related pay arrangements can sometimes be subject to a self-financing clause which, amongst the available options, can be more immediately attained reducing worst performers' base salary. Such an approach has actually been introduced in Switzerland where civil servants having been rated "B" (rating attributed to employees who have partially achieved their pre-identified objectives) see their salary reduced to 94 per cent of the relevant pay band ceiling, after a period of two years (OECD, 2005).

In some countries the savings achieved are shared amongst the staff. In Finland, for instance, one third of the savings attained by public organizations is shared amongst the employees.

Some empirical studies carried out within the public sector organizations have revealed that performance-related pay schemes actually motivate to work beyond the usual job requirements just a tiny percentage of staff; in many cases this approach also revealed to be divisive.

Reportedly, another substantial cause for performance-related pay failure within public sector organizations is associated with the importance individuals give to base salary, rather than to variable pay. As suggested by Behn (2004), the incentives offered by public sectors employers are habitually so modest that individuals might find it better taking a weekend job at a shopping mall in order to receive the same, or even a larger, amount of money. In this way they will receive the sum of money more quickly and more certainly, although it would mean working during all the week long and clearly not being involved in a compelling activity.

A study carried out by Prentice et al (2007) identified a proportionate correspondence between employees response to performance-related pay schemes introduction and discretionary behaviour, with the degree of response actually dependent on the extent of the financial benefits provided by the scheme, that is, a small financial increase produces a small positive reaction (albeit a positive reaction is identified).

Research also reveals that the introduction within public sector organizations of performance-related pay arrangements is most likely to favour and provide opportunities for organizational changes, rather than for increase motivation within staff. The changes required to introduce these arrangements are basically likely to influence motivation more than the implementation of the schemes (OECD, 2005).

Research within public sector organizations also seems to support the findings of the studies carried out within private sector firms as for what concerns the positive effects of performance-related pay on recruitment. Denmark, Finland and Sweden, for instance, have all reported of having availed themselves of these schemes introduction to this extent. In Denmark, more in particular, 57 per cent of managers have claimed that the introduction of performance-related pay schemes has enabled them to expand their recruitment offer. Similar findings have emerged in studies carried out in England and Wales, where performance-related pay schemes revealed to be an effective means to attract and retain quality teachers (OECD, 2005). The findings of the empirical studies carried out by Atkinson et al (2004) in England have also revealed that the introduction of these arrangements has produced a distinct positive impact on teachers' performance.

The positive results attained by the UK government as a consequence of the introduction of some collective performance-related pay schemes, has prompted the government to more widely foster this approach. A number of investigations carried out within the public sector suggest that, by and large, the development of collective approaches to performance-related pay produces more positive results than those yielded by individualised approaches (OECD, 2005).

As claimed by Makinson (2000), in order to financial incentives being likely to produce some effects, these have to be at least equal or above 5 per cent of base salary and, in any case, above the current inflation level.

Empirical research suggests that also the contextual factor has an impact on the outcome of performance-related pay introduction within the public sector organizations. Whilst, for instance, results can be deemed positive within the medical sector (Andersen, 2007; Dowling and Richardson 1997; Hutchison et al. 1996; Kouides et al. 1998; Shaw et al. 2003), research reveals that these arrangements are considered divisive when introduced within the regulatory and financial sectors (Bertelli, 2006 and Marsden, 2004). In some circumstances, such as the case of nurses, the motivational "public service ethos" could even be jeopardised by the introduction of these arrangements. It is also argued that in such context performance-related pay can encourage staff to work more effectively rather than harder (CIPD, 2012).

With the exception of the studies carried out within the UK, some other investigations revealed that performance-related pay schemes within the education sector are producing negative results on staff motivation (Andersen and Pallesen, 2008 and Heneman and Young, 1991). Additionally, an investigation carried out by Campbell et al (2010) revealed "a strong relationship between a faculty research output and the existence of a merit system", whilst it was inconclusive to the extent of determining whether the same positive effects could be associated with faculty teaching and service.

Research carried out within the police has produced even more controversial results. Whereas earlier studies have revealed a positive direct link between the introduction of performance-related pay schemes and crime reduction (Greiner et al, 1997), studies carried out subsequently did not supported the existence of similar clear positive links (Allan and Rosenberg, 1986 and Schay, 1988).

Findings of the different investigations reveal to be contradictory also when comparing the effects produced by these schemes at managerial and non-managerial levels. After having reviewed a large number of studies, Perry at el (2009) found out that performance-related pay schemes worked better at non-managerial level (20 per cent) rather than at managerial level (14 per cent). However, whilst these conclusions are consistent with previous research carried out by Milkovich and Widgor (1991), this result is in open contrast with a more recent study (Risher and Fay, 2007), which revealed that this type of schemes are likely to be more successful when directed at higher organizational levels.

Research also reveals (Gabris and Mitchell, 1986) that individuals who have actively contributed and have been involved in the performance-related pay schemes design and development phases have genuinely supported the approach during its implementation. Involving employees, in addition to properly communicate them the details about this approach mechanism, is therefore crucial.

Some successes notwithstanding, Perry et al (2009) consider the future of performance-related pay schemes within the public sector rather grim, in that unable to produce positive results both in the mid- and long-term. Essentially, this pessimistic view is based on the incompatibility of the main pillars on which this approach should rely and the typical "public constitutional rules."

Putting the implementation factor and the lack of appropriate and suitable performance management practices, actually causes for performance-related pay schemes failure also in the private sector, aside the Authors believe that the real causes for these schemes implementation failure are actually associated with the typical public sector requirements, that is: transparency, budgetary constraints and stewardship (Perry et al, 2009).

The most peculiar and important aspect amongst these is definitely represented by transparency. Employees will trust a performance-related pay scheme only whether these deem and perceive it as genuinely reliable and consistent. Yet, performance-related pay schemes would be accepted by employees as long as these are considered fair and non-political (Perry et al, 2009). Characteristics not really easy to ensure in public sector settings insofar as the Federal Deposit Insurance Corporation, after having introduced this approach, decided to abandon it exactly because it was not perceived as fair by staff (Kelley, 2008).

Notwithstanding, Perry et al (2009) believe that transparency can actually seriously undermine the successful introduction and implementation of performance-related pay schemes. Indeed, some investigations support the idea that the successful implementation of these programmes is based on secrecy (Colella et al, 2007). A number of empirical studies revealed that differences in wages within public universities and colleges actually produce dissatisfaction and reduce cooperation and productivity amongst staff; whereas the existence of the same circumstances are not likely to produce the same negative outcome within private sector universities and colleges, within which the information concerning staff salaries are habitually unveiled (Pfeffer and Langton, 1993). Although some countries have tried to limit the disclosure of civil servants pay data, national regulations tend to support the trend aiming at making these data available to the public (Poston and Marley, 2008).

According to Perry et al (2009), transparency represents, therefore, a real threat to the introduction and development of performance-related pay schemes within the public sector. Indeed, it can hardly be supported the idea that in order to this type of schemes being effectively implemented secrecy should be key. The lack of trust is actually one of the most relevant factors for performance-related pay programmes failure within the private sector organizations too. These arrangements ultimately aim at rewarding people on the basis of a meritocracy approach, namely is who perform more and better who will receive more. Secrecy would inevitably be perceived by individuals as a way to protect a system promising to go in a direction and actually going in the opposite direction, somewhat of a move to conceal that the employer is talking the talk, but is not walking the walk. People need to be aware of the genuine pay system mechanism and of the circumstance that whether there are people within the organization who receive more generous financial reward this is due to their better level of performance and contribution and to the results they produce. Differently, the system would reveal to be pointless and even counterproductive.

In the mid- to long-term individuals will possibly found out what the organization is trying to conceal, circumstance which would surely produce remarkable drawbacks and which would risk seriously jeopardising the effectiveness of the overall system. This occurrence is likely to produce even worse consequences by reason of the domino effect it can trigger. Employees would certainly no longer trust the organization and its practices and would no longer be motivated to go the extra mile.

In general, individuals accept differences in reward when these are objectively supported and genuinely deserved. If reward increases are concealed, this can just make individuals thinking about the existence of favouritism, bias and unfairness. Bad performers have to be deliberately made aware of the circumstance that best performers are enjoying more generous reward packages by reason of their results and contribution to the organizational performance.

In order to effectively implement such a system all of the employees have to be aware of the mechanism regulating it and extra care has to be paid to all the relevant "details" associated with the design, development and implementation phases. All of that is of paramount importance for public sector as well as for private sector employers.

Business culture, with the active and genuine support of all the levels of management, should be coherent with, and hence fostering and supporting, the tenets, ideas and concepts underpinning the scheme, ultimately favouring integrity and consistency within the whole organization.

Performance-related pay schemes implementation

The final stage of these arrangements implementation process is concerned with deciding in which form financial awards have to be offered to the individuals having proved to deserve them.

In general, the financial rewards related to a performance-related pay scheme implementation can either be offered in the form of a lump sum or a salary increase. The difference between the two options is not negligible at all in that a lump sum, usually called bonus, practically represents a supplement which must to be re-earned in order to be repeated and commits hence the employer for a single payment, whereas a salary increase, being incorporated into base salary, automatically becomes part of the person overall fixed salary and has to be permanently paid by the employer.

The payment of a lump sum would appear to be more suitable and consistent with an organizational culture strongly aiming at fostering meritocracy and hence rewarding people on the basis of their performance, output and achievements. The message of such an approach would be that individuals cannot rest on their laurels and take the financial benefits they receive as axiomatic. The implicit underpinning tenet is that people need to constantly perform and deliver whether they want to receive additional financial rewards.

Nonetheless, when prompted to make decisions in this sense employers should actually consider several factors. Performance-related pay schemes essentially aim at rewarding individual performance and achievement; financial reward associated with them should consequently lead to salary increases and bonus payments either for qualitative or quantitative achievements as well.

Employers could find it more appropriate rewarding individuals with bonuses and lump sums when the reason for offering the additional reward is more directly linked to a specific and particular objective attained by the person concerned. Rewarding with a bonus the successful completion of a task or project, for example, could turn to be more suitable to make the person concerned understand the reason for the payment of the financial supplement, that is, the organization appreciation of that specific outcome. The fact a person has successfully accomplished a particular task or project, however, not necessarily entails that the person will be successful in the next occasion, unless this would not require the same skills and expertise, this is essentially the reason why in such type of circumstances a lump sum may reveal to be more appropriate.

Permanent salary increases, by contrast, represent a more effective and proper means to reward individuals who have acquired additional skills and competencies, a more considerable degree of autonomy and who can consequently perform at higher levels whereas requiring a lower level of supervision. In such circumstances, since the capabilities and skills gained by employees will also be used by these in the future, a salary increase on a permanent basis should be seriously contemplated as the more appropriate option. Base salary increases are habitually also offered to staff when outstanding performance is repeated over a minimum number of consecutive years.

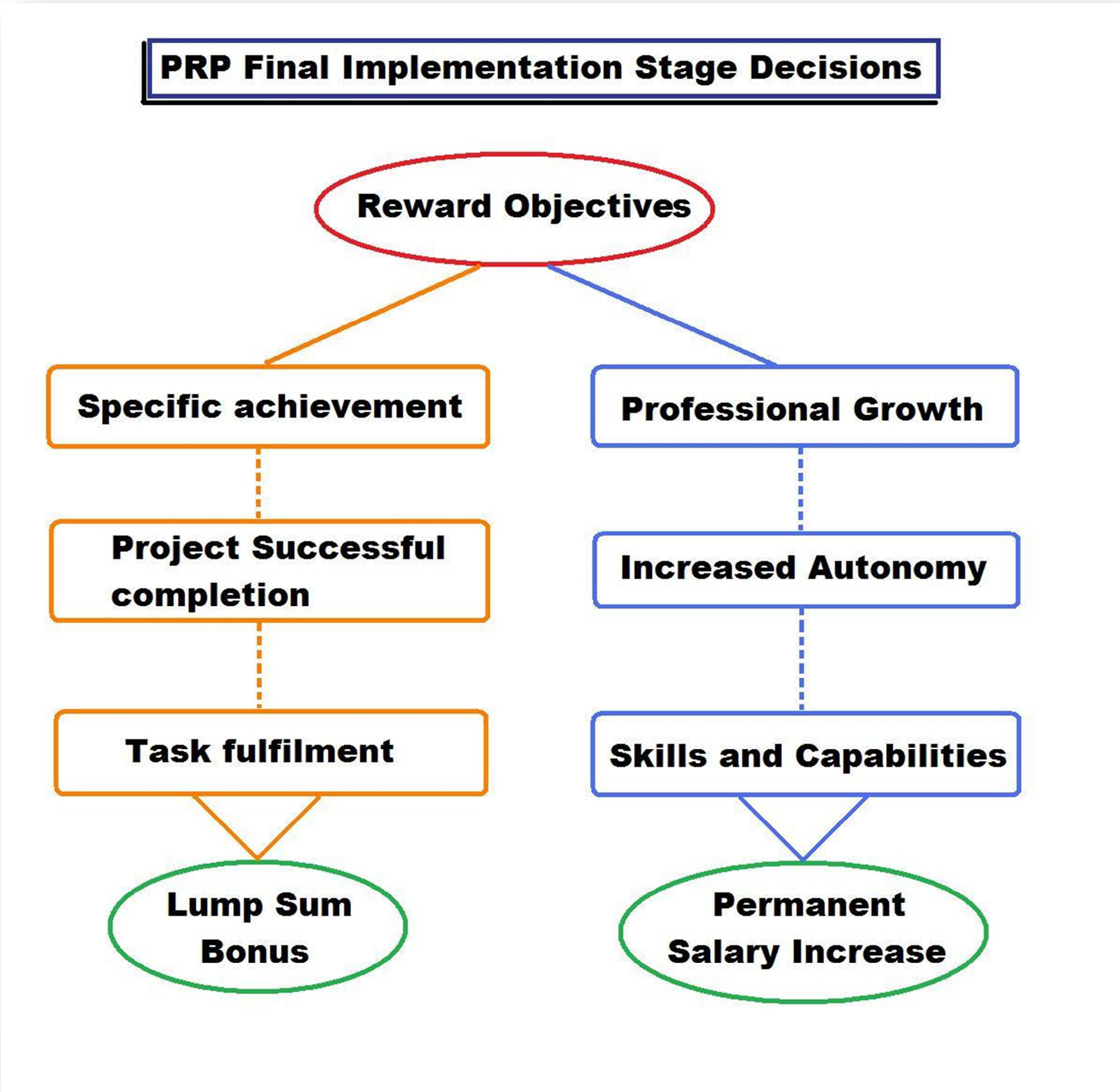


Table 39 - Final implementation stage decisions

In order to determine which type of reward offering to the individual concerned, however, employers should also consider another important aspect, namely at what point within the relevant salary grade the individual's pay is currently positioned. Having recourse to the comparison ratio calculation, that is, the "compa-ratio" can reveal to be particularly useful to help employers making sound decisions.

In those cases in which the person's salary is at 100 per cent of the relevant compa-ratio salary range, meaning by that that it coincides with the pay bracket midpoint, employers could find sufficient scope to increase the individual's base pay. Whereas, in those cases in which the compa-ratio analysis should reveal that the person concerned is at, or very close to, the upper end of the salary range (usually 120 per cent in an interval between 80 per cent and 120 per cent), unless there is scope for a career progression to the next level or grade, employers should rather consider offering to the employee a lump sum or a bonus.

In general, as suggested by Armstrong (2010), the more the level of the salary received by a person progresses towards the upper end of the relevant grade or level's salary range, the more base salary increases tends to be less frequent. This actually mainly occurs for two reasons: on the one hand people are likely to benefit of salary increases during the period in which these receive training and gain additional skills and competency, which normally occurs during the first years an individual is in a new role. On the other hand, it must be considered that the median point of a salary range usually coincide with the market rate received by an experienced and fully competent employee. Sometimes this level might also be positioned above the median of the salary range. Whatever the case, and especially in the latter case, employees should be put in the position to progress as quickly as possible within the salary range in order to attain the median point, that is, the point coinciding with the market rate associated with that role (Armstrong, 2010). This is particularly important as a retaining strategy. Individuals to whom will not be given the opportunity to progress to this salary level at a reasonable speed will probably leave the organization lured by the likely better opportunities available in the exogenous environment.

Notwithstanding, it is important that salary increases are offered only on the basis of individual growth, differently employers would risk putting the wrong message across. That is why this relatively fast process has to be carefully planned as part of a specific well-prepared career path.

All of that brings us back to the importance of always introducing a performance management process in conjunction with a performance-related pay scheme. Since the results obtained by individuals are more often than not difficult to qualitatively be measured, the existence of a performance management process can effectively help managers to make informed decisions on the most suitable type of reward they have to better offer to their reports and to also better understand the impact of each employee contribution to the organizational results. Especially in those circumstances in which the results produced by individuals could be affected by other factors which are beyond their control.

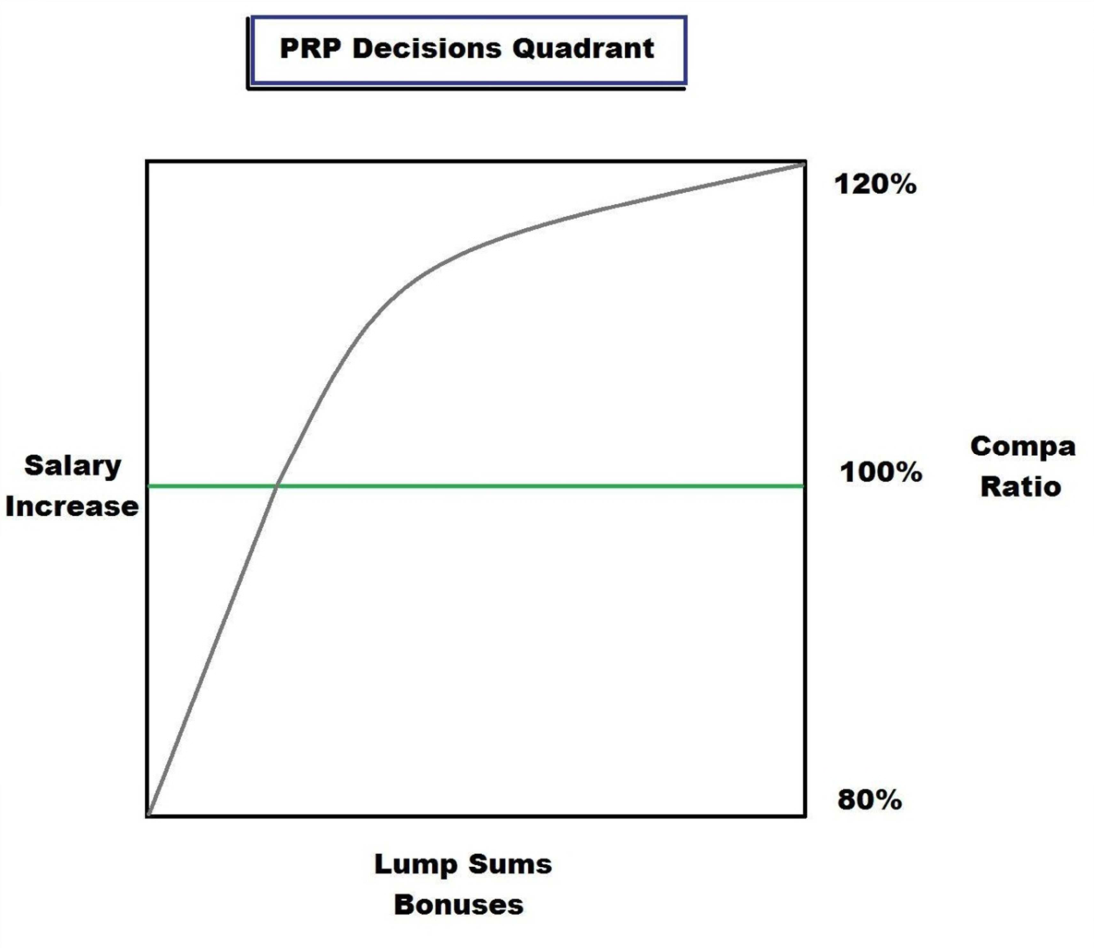


Table 40 – PRP Decisions Quadrant

One of the reasons for performance-related pay schemes resulting in a failure is managers exclusively taking into consideration the quantitative output yielded by their staff and making pay decisions accordingly. Establishing a clear line of sight between performance and pay, as we have seen, is important, but managers need to be much more farsighted. They need to investigate what behind their staff success and failure and decide the correct plan of action for enabling bad performers to grow and perform at higher levels. Performance-related pay schemes used in association with effective and proper performance management processes can effectively help managers to understand and take into due consideration what behind the achievement or non-achievement of their direct reports expected output and enable these to avoid the common pitfalls associated with these arrangements implementation; ultimately helping them to make sound decisions about the most appropriate type of reward to offer to their staff and their growth and development plan.

Bonus schemes

During the last five, six years the term bonus has been widely associated with evil and bad reward policies fostering risk-taking practices. Whether the use, or rather, the misapplication of bonus schemes in the financial sector has produced disastrous results in the past, this does not mean that the same outcome should be necessarily reproduced by their implementation in other industries and in the same financial sector whether managed differently. The demonization of and the bad press attracted by these pay arrangements have been essentially due to the use in the financial sector industry of these programmes in combination with risk-taking practices, and what worst short-term risk-taking practices, by which the design of these schemes was essentially inspired.

So remarkable was the impact of such bad practices, by many considered at the basis of the international financial crisis burst in 2008, as to sway the European Union Commission to promulgate a specific directive, known as the Capital Requirements Directive, to cover and regulate this subject. As a consequence of that, the Financial Service Authority (FSA) in the UK revised its Remuneration Code requiring that all the banks, building societies, broker dealers and all of the investment firms covered by the Capital Adequacy Directive (CAD) would apply and foster reward practices and policies fostering effective reward risk management.

Financial sector and, in some cases, executives and directors bonus programmes mismanagement notwithstanding, bonus schemes can and are still considered by many employers as an important part of their total reward offering.

The cash awards paid by employers to employees in the form of bonuses are typically defined as "an after-the-fact reward or payment based on the performance of an individual, a group of workers operating as a unit, a division or business unit, or an entire workforce." Albeit payments are mainly, or rather, traditionally mostly made in cash, company shares, share options and other forms of valuables are growingly used by employers. The amount of a planned bonus can either be determined as a predefined percentage of an individual base pay or salary range midpoint or as a specific amount of money (WorldatWork, 2013).

Bonuses can be, in general, grouped into discretionary or non-discretionary: non-discretionary bonuses are usually paid on the basis of predetermined criteria agreed by the employer with the employees. Differently from discretionary bonuses, these are usually paid on a regular basis, for instance every four or six months. Being these kinds of bonuses pre-agreed and predetermined in their amount too, they are considered legally binding for the employer. By contrast, discretionary bonuses are characterized by the circumstance that these are not pre-identified and that no specific promises are at the basis of their payment.

Since bonuses are usually paid on an annual basis, this form of financial reward is considered part of a short-term incentive reward strategy. Findings of a relatively recent investigation carried out by WorldatWork (2012) in the United States revealed that bonus schemes are fairly widespread also within for-profit organizations and that their usage has constantly grown between 2007 and 2011. The investigation did not reveal any changes, vis-à-vis the results emerged from the similar study carried out in 2007, in terms of the reasons why employers have recourse to this type of schemes, which are still represented by:

- To reward employees (74 per cent),
- Concentrate employee efforts on specific goals (67 per cent),
- Share the business financial success with employees (55 per cent).

Individual and group bonus payments may be related to different variables, amongst these the most widely used are directly associated with organizational performance. Habitually employers use to have recourse to: the level of revenue, the operating income, the net income or the operating profit. Some employers use to base bonus payment on the level of quality delivered by the firm; in these cases customer satisfaction or the service or quality levels delivered by the company are usually the preferred variables. Bonus schemes can also clearly be based on the attainment of employee objectives.

The recourse to a type of variable rather than to another depends on the sort of message the employer wants to put across and the objectives and organizational strategy this intends to pursue. Unquestionably, also the exogenous context plays a role. The external changing circumstances may indeed prompt employers to change the measure on which to base the mechanism of their bonus schemes. This is what also basically emerged from the above cited WorldatWork (2012) investigation. Comparing the findings of the 2007 study with those of the investigation carried out in 2012 it clearly emerged that whereas in 2007 employers had by and large based their bonus schemes on the level of revenue, in 2012 the focus had shifted to the operating income, which reflects the employers intent to prioritize profitability over growth by reason of the economic downturn.

The reasons for introducing a bonus scheme

Cash supplements are usually offered by employers to employees for some specific reasons, primarily to: recognize the attainment of challenging objectives, reward outstanding performance and award individuals who, being at the top of the relevant grade salary range, continue to perform well.

As stressed by Armstrong (2010), individuals can actually find it most appropriate and gratifying to receive a lump-sum of money, rather than receiving the same amount throughout the year in the form of smaller additions. The cash received as a lump-sum may in fact be used by individuals to satisfy a particular need such as buying a fashionable trifle or making it easier to buy something which would otherwise be more difficult for the employee to buy. This also helps employers to highlight the payment main features: it is not part of base pay, it is not consolidated and needs hence to be re-earned in order to be repeated. The payment of a bonus in several instalments throughout a year might also appear to overshadow the circumstance that it is paid for a well-identified specific reason.

One of the most important, arguably the most important aspect which has to be considered by employers before introducing a bonus scheme is ensuring coherence between this initiative implementation and corporate culture. Reward practices talk and communicate on behalf of the employer, so that these need to absolutely avoid putting across the wrong message and inducing the wrong behaviour.

Organizational culture also needs to be taken into due consideration during the decision-making process aiming at identifying, once determined that a bonus scheme can be introduced, whether this has to be offered in the form of individual or team bonus.

Defining a scheme objectives

During the design phase of the scheme employers need to identify the type of objectives to the attainment of which the payment or non-payment of bonuses has to be linked. As discussed earlier in this chapter, the payment of bonuses can either be linked to variables associated with the business, the employee performance or with a combination of both of these.

Business-performance-related schemes

KPIs-indicators-based schemes

Bonus payments subject to the attainment of business performance are paid, irrespective of the individual efforts and contribution, whether one or more organization's key performance indicators (KPIs) have been satisfied. The payment of bonuses can either be associated with the success of the organization considered as a whole or as a single division, business unit, factory or store.

Whether this form of bonus entails a direct employee participation in the business fortune and misfortune, it does not take into account employee efforts and contribution, neither as individual nor as part of a group, to the attainment of the pre-identified company KPIs. Bonus schemes based on meeting pre-set KPIs however help employers to foster a feeling of citizenship and a sense of belonging amongst staff and can be used both in isolation and in combination with other types of schemes.

Profit-sharing schemes

This type of programmes provides for bonuses to be paid whether and only whether the organization, considered as a whole, has made a profit. The cash additions may be paid according to a pre-identified formula or at board discretion (Armstrong, 2010).

Also in this case, the scheme does not offer individual recognition, but helps reinforcing individual sense of belonging and participation to the business success.

Gain-sharing schemes

According to this type of schemes, bonuses will be paid to employees whether the overall organization or the single business unit has attained an increased level of productivity measured by means of a predetermined indicator. The programme basically allows employees to have access to part of the financial gains achieved by the employer.

As maintained by Armstrong (2010), this type of arrangements can reveal to be particularly difficult to manage and ineffectual whether only a limited share of the amount calculated according to the pre-identified indicator will be distributed amongst staff. On the other hand, this scheme can effectively contribute to make individuals perceive the impact of their contribution to the attainment of the outcome measured by the indicator identified at the outset by the employer (for instance: added value, customer service, cost reduction, etc.).

Employee-performance-related schemes

Individual-related bonus schemes

This kind of programmes unquestionably represents the seminal meritocratic scheme. According to these arrangements, individuals are in fact rewarded on the basis of their contribution, efforts and performance. Employees can therefore perceive that their efforts and dedication to the attainment of the pre-set objectives have been recognized by their managers and should feel motivated to repeat their performance in the future. Albeit the financial reward aspect may have a relevant impact, this type of schemes can also reveal to be particularly effective for the intrinsic effect they can produce. By means of this approach an employee can directly associate his/her efforts to a prize which represents the recognition of a good job or more in general of an activity which has been appreciated and recognized as such by the employer. The financial prize can be thus considered as a means to an end and not as the end itself.

On the flip-side, the scheme can be perceived as affected by bias and consequently as unfair by some individuals, mostly by those who do not receive the bonus, who can hence react negatively to its implementation. Being able to support bonus payment and non-payment decisions, regardless of their objective grounds, could reveal to be therefore of paramount importance for the successful execution of the scheme. Particularly important to this latest extent is ensuring the coherence of the programme mechanism with the business culture and the message it practically carries.

Team-based bonus schemes

Whether the firm is interested in encouraging and fostering team working in that considered crucial for the attainment of organizational strategy and objectives, and this is supported by the business culture, paying bonuses on the basis of the performance achieved by groups or teams of individuals can reveal to be the most suitable and effective approach to introduce and implement within the firm. On attainment of the objectives assigned to the group, the pre-identified bonus will be equally divided amongst the employees forming it.

This type of scheme, however not completely immune from downsides, can certainly help employers to encourage cooperation and multi-skilling amongst the group members. It is likely that each individual will do his/her utmost in order to contribute to the attainment of the identified objectives and, to this extent, being able to perform tasks usually carried out by other peers could reveal to be of paramount importance for the timely attainment of the pre-identified objectives. Whether a genuine sense of belonging to the group is actually developed by each member of the team, it is also likely that poor and below-average performers will do their best to improve their level of contribution in order to reduce the gap with the best performers.

One of the drawbacks of these schemes, in addition to the wider difficulty of objectively measure performance, is that best performers could find it unfair being rewarded as much as poor performers, especially whether these should do nothing to genuinely improve their level of contribution to the attainment of the group objectives.

Combined schemes

Employers may find it more appropriate having recourse to a combined form of company and individual performance indicators in order to regulate their bonus scheme mechanism. In this case, the availability of a budget to pay bonuses can be determined on the basis of the business performance; whereas each individual or group access to the available cash will be subsequently determined on the basis of the individual or group contribution and performance.

This type of bonus schemes can actually enable employers to pay bonuses only whether the business has attained its intended results, measured on the basis of the KPIs identified. Once these have been achieved, individuals and teams could be considered entitled to receive a bonus whether these have satisfied the performance level requirement set by the employer, but still on the basis of and according to their actual level of contribution and performance. Combining the characteristics of employee- and business-performance-related schemes, these kinds of programmes might reveal fairly tricky to manage and execute in practice.

Designing and developing schemes neatly

Bonus schemes need to be first and foremost as clear and as simple as possible. Individuals need to understand from the outset which elements will be considered by the employer to determine whether and eventually to what degree a bonus will be paid. This entails that the objectives and targets to which the payment of the bonus are associated need to be clearly stated, irrespective of the circumstance that these can be linked to the business, individual or team performance.

Employers also need to be clear about the existence and impact of the threshold eventually set for each of the variables identified and to which the payment of the bonus is firmly and strictly associated with and dependent upon. Whether the employer would consider, for instance, that in order to pay annual bonuses a minimum level – threshold – of profit should be attained by the firm, this needs to be clearly explained to employees. Individuals should also be informed whether, for example, a threshold for the bonus payment is also associated with the customer service level or any other variable.

In order to protect the organization from the risks typically associated with bonus payments, bonus programmes should also clearly outline and provide examples of the special and particular circumstances under which bonuses may not be paid by the organization. Whether a bonus scheme should take into consideration individual or team performance, or a combination of both, as a reference for the bonus payment decisions, introducing a clause detailing that in the event the business should not achieve, for example, a minimum level of profitability or of sales, bonuses will not be paid, could help prevent later disappointment and pointless tensions amongst staff. This type of clause can reveal to be particularly effective during economic recession or downturn periods whether employers should actually be unable to pay bonuses by reason of financial-related difficulties.

Regardless of downturn and recession periods, however, in order to avoid predictable failures, employers should invariably take extra care with designing bonus schemes always ensuring that these are properly financed and funded.

The legal aspect

Paying reduced or no bonuses

The payment or non-payment, in full or in part, of a bonus can in some cases give raise to legal disputes. This can, in general, be avoided by means of properly and clearly communicating to, and agreeing with, staff the rules underpinning the overall bonus programme. Notwithstanding, in some cases, especially in those cases in which specific agreements are reached between employers and individuals filling particularly important roles within the business, the risk of litigation can be higher and trickier to manage and resolve once arisen.

The source of a bonus payment: express or implied terms?

Express terms

The payment of a bonus, like every other terms and conditions of employment, may be provided for either in writing in the written particulars or contract of employment or, since this might not necessarily be the case, verbally.

Albeit the written form of a bonus agreement might not be required *ad substantiam*, meaning by that that the written form might not be considered necessary for the validity and enforceability of the agreement, always subscribing a written document with employees can definitely help employers to solve the disputes eventually arising in the future. A written document in fact even though not necessary *ad substantiam* can always be used *ad probationem*, that is, to provide evidence of the terms and conditions agreed between employer and employee and prove, whether required, that the employer made a specific and precise offer to the employee and that this accepted it as formulated by the employer in the written document.

The main document and reference in case of litigation is clearly represented by the contract of employment. Whether this should contain a clear and unequivocal entitlement to the payment of a bonus, this would be clearly considered part of the express terms and conditions of the contract of employment.

What in general typifies the express terms of employment is the circumstance that these have been discussed in details between the employer and the employee, agreed and accepted by both parties. As such, these terms become legally binding. The formulation used in the contract of employment to entitle an individual to a bonus payment becomes therefore extremely important (Gannons, 2011). As a general rule, whether an employer wants to keep a degree of latitude as regards the bonus payment, this should avoid phrasing the bonus clause in a way which absolutely entitles individuals to receive the bonus payment. The caveat should rather be formulated in a way enabling the business to retain the right to pay it in part or not to pay it by any means whether required by the circumstances.

Staff handbooks and even e-mails and notice boards, albeit not necessarily encompassing a contractual and hence legally binding status, can contains information which could be used by the court to decide on a dispute. Employers and the business management should consequently take extra care with devising these documents and with writing whatever type of letter or note.

Implied terms
Implied terms of a contract of employment are those which, albeit overlooked and not agreed at the moment of starting the working relationship, are deemed necessary to regulate the matters not expressly covered by the written documents and hence to integrate and complete these. The tenet on which a court will eventually establish an implied term is that whether this should have been discussed by the parties it would have been agreed in a certain way by these, in accordance with their presumed intentions.

In general, as regards the UK law, the most relevant implied terms, to the extent of a bonus payment, are "mutual trust and confidence" and "not to act arbitrarily, capriciously or inequitably." Indeed, in order to establish whether an alleged implied term can be considered as such, the courts are also very likely to give a high degree of importance to the practical conduct of the parties.

Cases in which an employer can pay a reduced or no bonus during employment
According to the implied term on the basis of which an employer should not act arbitrarily, capriciously or inequitably, there are basically two factors which can restrict employers' latitude to pay, fully or in part, annual bonuses: the impossibility to explain and sustain the concern's decision not to pay a bonus and the breach of discrimination law.

More in particular, whether a firm's decision not to pay, or pay a reduced amount of the agreed bonus, should be sustained by rational and well-supported arguments (the employer has therefore acted neither arbitrarily nor capriciously), as emerged from the UK court case Clark v Nomura International Plc. (2000), it is unlikely that the courts could impose a business to pay an employee the full bonus. With reference to this aspect, for instance, a court decision could be based on the assessment of the overall business performance and actual circumstances. Albeit an individual has objectively performed well the payment of the bonus may be in contrast with the current financial health of the business. In Europe, the respect of this tenet is provided for by the Capital Requirements Directive no. 3 (CRD3) promulgated as regards the financial sector organizations.

Observing this tenet, however, can undoubtedly reveal to be useful for all the employers irrespective of the industry they belong to (Gannons, 2011).

It depends on the real employers intentions, but firms wanting to consider bonus payment as discretionary, should take extra care with the way their employment law specialists device the relevant caveat in the employment particulars and in the terms and conditions of the contracts of employment. Even in those cases in which a bonus has been agreed in express terms as discretionary, the way it is couched can reveal to be crucially important and should leave no doubts as regards its discretionary attribute.

The term discretionary itself needs to be fully explained and the degree of its application clearly identified. The importance of this principle actually emerged, in the UK, in Small and Others v The Boots Co. Plc. and Boots UK Ltd. (2009). The Judge of the EAT considered "ambiguous" the use of the adjective discretionary in the documentation provided by the Respondent, considering that it could have been referred either to the decision whether to pay a bonus at all or to its calculation method or to its amount or to other factors or to all of these aspects considered together. Simply defining the bonus as discretionary, hence, is not enough and sufficient to determine the extent to which an employer's discretion applies.

It is very likely that albeit in the employment contract it has been clearly stated that the bonus payment is discretionary, this could not suffice to totally protect the employer from the consequences of possible claims. As discussed earlier, the fact to show in the terms and conditions of employment that the payment might not be made, either in full or in part, could not be enough if the circumstances to which the employer refer to in order to justify the non-payment are not sustainable and rational. Essentially, what matters the most in order to support the non-payment of a bonus, in addition to having clearly detailed the cases in writing, is the employer's ability to prove that its decision is consistent and coherent with the financial situation of the business, the current circumstances and the employee actual level of performance and contribution.

In Ridgway v JP Morgan Chase Bank National Association the court held that the "nil bonus" awarded to the Appellant was consistent with the circumstance that the employee had made losses, rather than providing income, for the concern in the year considered for the bonus payment. The Appellant had actually applied and been authorized by the bank to a sabbatical year from April 2003. The bank did not pay any bonus to the Appellant providing evidence that the decision not to pay was associated with the Appellant performance during the first months of 2003 and not with his absence.

In order to meet the implied term not to act inequitably, employers' bonus payment decisions cannot clearly be made on the grounds of discrimination-related reasons. Gannons (2011), with particular reference to this point, stresses the importance of considering the circumstance that in addition to age, sex, disability, etc., discrimination based on nationality is protected by race discrimination, this entails that foreigner businesses based in a given country cannot pay home country employees better than local ones.

Another important tenet emerged from the UK's jurisprudence relates to the so-called anti-avoidance term. The expression anti-avoidance relates to those circumstances in which an employer might decide to resort, to put it mildly, to not completely correct and transparent moves in order to avoid complying with some employment terms. As suggested by Cabrelli (2007), the anti-avoidance term in the UK mostly emerges in the employer authority to dismiss employees and in enabling them to withdraw contractual benefits according to the changing circumstances. Indeed, in Takacs v Barclays Service Jersey Ltd emerged that the Appellant in mid-November 2004 had not yet met his objectives; he was hence dismissed with a letter sent to him on November 15th of the same year stating that his contract of employment with the Defendant would have been terminated with effect 13 December 2004. No bonus was paid to the Appellant who claimed the Defendant's breach of the implied trust and confidence, anti-avoidance and cooperation terms. Additionally, the Appellant also claimed an amount of money considered, pursuant to the contract, as a "guaranteed minimum capital EPP award."

The High Court of Justice held that the Claimant had real chances to succeed and hence the case to proceed therefore to full trial. The parties settled the dispute one year later prior to the case to be brought before the court for the full trial.

Payment bonus during notice period of after employment termination

A delicate point abut bonus payment decision is associated with the circumstance that an employee might leave the organization soon after or just before the date set for the bonus payment. In order to prevent to deal in an erratic way with such circumstances should these arise and avoid legal litigations, it is definitely better to provide details in the contract of employment of what eventually would happen in these circumstances. This could clearly help employers to prevent claims, but could not necessarily suffice. The courts might consider employee entitlement to the bonus payment to be effective whether this has fully attained his/her objectives and the business is in the position to honour its pledge.

In general, a firm's decision can clearly be different according to the different circumstances. It is most likely that an employer will decide to reward anyway a "good leaver" or an employee made redundant, whereas it is likely this might be less incline to award a resigning poor performer employee or an employee dismissed for gross misconduct (Gannons, 2011).

As discussed earlier, the best approach to overcome these potential problems is to clearly state in the contract of employment that in case of termination the bonus will not be paid. In general, courts in the UK tend to impose employers the payment of the bonus when this is paid for the attainment of past objectives, and these have been actually achieved, but not when it is intended as a motivation or retention means. Notwithstanding, to prevent the risk of breaching the anti-avoidance term, employers should better avert to dismiss people in coincidence with bonus payment; this move might in fact be intended as motivated by the unwillingness of the employer to pay the bonus and as such as a breach of the contract of employment.

Notwithstanding, in McCarthy v McCarthy & Stone Plc. (2007) the court held that whether an employee has met his performance objectives as detailed in the firm's employee share option programme, the employer has no longer latitude to decide whether to pay or not to pay the bonus, albeit an employee may be dismissed for gross misconduct. The Judge also held that a bonus clause expressly regulating this circumstance would have actually enabled the employer not to pay the bonus.

An employee can be deemed to still hold his right to the payment of a bonus also in those cases in which he/she has been dismissed for having breached a contract term, not only for the part of the bonus accumulated at the time of dismissal, but also for the part of the bonus this would have received if still working during the notice period. Whether a contract encompasses the payment of a sum in lieu of notice (PILON) clause and the employer counts on this clause to put to an end a contract of employment, the payment or non-payment of the bonus during the notice period should be detailed in the payment in lieu of notice or PILON clause (Greenberg Traurig Maher, 2011).

In Locke v Candy & Candy Ltd. (2010), the Appellant's contract of employment provided for this to receive a discretionary bonus, whereas no further detail were provided to identify the extent to which the bonus payment was to be intended as discretionary. As such, as observed by the court, the definition of discretionary was actually ambiguous. After 12 months in employment the Claimant bonus would have been quadrupled if the employer would have still been "employed by the company." The organization reserved in the contract of employment the right to terminate the employment relationship making a payment in lieu of notice, as it actually did before the payment of the bonus. The generous bonus was therefore not paid in that, as it was, the employee was not employed by the company at the time of the bonus payment. The Appellant based his claim on the circumstance that it should have been taken as axiomatic that the PILON clause also included the total bonus. Notwithstanding, the court held that the extra bonus should have been paid if and only if he should have been employed, whereas he was not, so that the claim was dismissed by the court.

Also in this case, the appropriate wording of the clause would have certainly helped the employer to better manage the issue. However, the doubt that the anti-avoidance implied term was actually breached by the employer remains. The FILON express term was in fact used by the employer to invalidate another express term of the written contract, that is, the one concerning the payment of a particularly generous bonus to the Appellant. This would have been paid to the Appellant only if this should have been employed by the concern after twelve months; but this condition was not met because the Defendant exercised its power and prerogative to apply the FILON clause to the detriment of the Appellant who undergone it.

Each case is definitely different from the others and details really count. In Reda v Flag, for instance, where two senior executives were dismissed by their employer in order to allegedly exclude them from the benefits of the company stock options programme, the court held that, according to the Claimants contract terms, the employer had the right to dismiss them for any reason, even though this would have been not to pay them the sum linked to the stock option programme. In this case, the lack of ambiguity and a detailed and well written contract of employment and particulars enabled the employer to be successful. Yet, as properly stressed by Greenberg Traurig Maher (2011), since the Appellants had claimed that engaging the employer in this tactic had represented a breach of the implied duty of trust and confidence, this case also shows as a properly devised contract of employment can enable employers to protect themselves against the potential consequences of some implied terms.

Employers should be aware that after a bonus has been paid to an employee the chances to claw it back, if any, are very limited. The most likely circumstance under which a bonus payment can actually be clawed back is when the employee has breached a post-termination pact. The seminal case is represented by an employee breaking a restrictive covenant agreement terms. Other cases in which there may be chances for employers to claw bonus back are those in which these can prove that the objectives set for the bonus payment have been attained dishonestly or that the employee has voluntarily altered the facts and data on the basis of which his bonus has been paid.

The legal aspects associated with bonus payment are really many-faceted and the best way to prevent problems to arise is do everything it is possible to do beforehand, never as in this case prevention is better than cure or an ounce of prevention is worth a pound of cure. Reward managers and employment law specialists need hence to tightly collaborate together in order to phrase a thorough, detailed and consistent clause concerning the payment of the bonus, trying to regulate all of the possible cases they could potentially be prompted to face in the future.

Varying schemes and bonuses terms and conditions

With the exception of some statutory terms, each term of a contract of employment, once agreed and accepted by employers and employees, can be changed only with the consent of both parties, those who agreed them at the outset. Whether an employer should change unilaterally a term previously agreed with the employee without the employee consent, this variation would be considered unlawful. At this point, nonetheless, comes to play the practical behaviour of the parties, used as a way to determine whether a contractual term, or its variation, can actually be considered as an implied term. Whether the employee does not object to the variation implemented by the employer and adapts his/her behaviour to this, the term will be considered accepted by the employee and changed by conduct. As we have seen earlier, this basically represents the flip side of the same aspect, bonus schemes implemented for years by employers initiative, albeit not being part of any express terms, are accepted by individuals who receive the sums of money and become legally binding for the employer too.

It clearly emerges that the existence of a bonus scheme within an organization can pose legal threats to an employer also when this would like to introduce changes in the existing programme. In such a case the risk is that changes could be considered by employees as a breach of the current terms and conditions. Before introducing amendments to a bonus scheme employers should hence ensure that these are consistent with the current employment terms and conditions and do not entail any modification of these (Brettle, 2003).

Whether individual entitlement to a bonus payment is explicitly included in the written contract of employment, this can be altered only with the mutual consent of both parties. The agreement may be either expressed in writing or emerge by conduct. Employers need hence to be aware of the way the scheme is actually operated and executed. Over time the mechanism of the scheme, as initially agreed, might also have been changed in practice and the new, operating mechanism of the scheme considered as having replaced the original or previous one.

The first thing to do before changing a term of a bonus programme is therefore inform the employees concerned. Whether a bonus scheme has been operated for a number of years employees would take it as axiomatic that it will continue to be operated in the same way in the future. The importance of this implied by conduct term emerged in Quinn v Calder (1996) where the employer had operated a bonus scheme which, albeit not included in the express terms of the contract of employment, was considered as it actually was by the employees in that it had been consistently executed in the past. The court held that individuals continue to be employed considering the bonus as part of their terms and conditions and that the employer was aware of this circumstance. Essentially the by conduct term is based on the making and the acceptance of a bonus offer.

This tenet actually applies irrespective of the circumstance that a bonus has been offered and accepted in writing. In Noble Enterprises Ltd. v R. L. Lieberum (1998) it emerged that albeit the bonus payment had not been agreed as an express term (with the exception of 1994, when a written document was actually devised by the employer to regulate the bonus programme), the bonus scheme had been operated by the employer for a number of consecutive years, namely from 1992 to 1997 year during which the Appellant left the organization. The EAT therefore held that the Employment Tribunal (ET) had correctly deemed the scheme as contractual. Since it had been operated for several uninterrupted years employees could exactly calculate the amount of their bonus and each of them worked knowing that a bonus would have been paid to award their efforts. The court also held that since the scheme was effective also the Claimant had the right to receive the bonus payment. No documentation or information was provided to the Appellant to notify him of having lost his right to the bonus payment. The Appellant was hence expected to be awarded the bonus as it had occurred during all of the previous years of employment.

One of the most important factor, arguably the most important factor, employers should consider when planning to introduce a bonus scheme within their business is that the moment the scheme is implemented within the firm, irrespective of the circumstance that this have been introduced because of express or implied terms, individuals mature expectations. The longer the system is functioning and used in the firm, the more individual expectations develop and consolidate. As such, these expectations, or rather, the bonus scheme at the basis of their development becomes part of the psychological contract. Whether the employee should consider that the employer has not met these expectations and complied with the unwritten norm consolidated over the years, individuals feel that the employer has breached the psychological contract. Indeed, this unwritten agreement is underpinned by the mutual trust and the implied promise that both parties will perform as essentially implicitly agreed. All of that inevitably generates expectations on both sides. Although it might reveal harder for an employer provide evidence of an employee breach of the psychological contract, employee expectations can fairly easier be protected before a court which, in every circumstance, mainly made its decisions considering whether employee expectations have been met or otherwise. It could consequently be maintained that, to some degree, the psychological contract also benefits of some legal protection, if anything on the employee side.

Employers should inform the employees concerned, at least before the beginning of the period of time with reference to which the bonus payment decisions are made, of the circumstance that the bonus scheme cannot or will no longer be operated. This in order to both be transparent with employees, prevent them to develop wrong expectations, cause disappointment and ultimately having more chances of success should a case be brought before a court. When communicating employees the elimination or variation of an already existing bonus scheme, transparency and timeliness can definitely reveal to be of paramount importance. These will enable employees to readdress their expectations accordingly and not perceive the change made by the employer as breaching the pact previously agreed, psychological contract included.

Employers should carefully consider the potential breach of the implied duty of trust and confidence also when varying the existing bonus scheme. Individuals affected by the programme change could potentially claim that the variation unilaterally implemented by the employer in the bonus scheme could seriously jeopardize the relationship of mutual trust and confidence existing between them. An employee could indeed also claim that the employer has engaged in such a tactic just to force him/her to resign. In this case it is very likely that the employee would claim a constructive dismissal. The change implemented by the employer would be considered as detrimental for an individual as to let him/her perceive that the implied mutual trust and confidence term has been irreversibly breached and that he/she has no option but to resign.

As posited by Brettle (2003), in the UK an individual entitled to claim constructive dismissal could also claim unfair dismissal against the organization. Most importantly, whether the court should establish and recognize the existence of constructive dismissal, this will imply that the employer has breached all of the contracts terms, those in its own favour included. In such circumstances, therefore, also express terms like restrictive covenants would be considered unenforceable.

To cushion the blow, before implementing any changes to a bonus programme, employers should invariably inform and consult with unions or workforce representatives to explain the reason for the bonus cancellation or variation. This will, in any case, prove that the employer did whatever it could to modify or cancel the programme with the staff agreement and that the organization was acting in good faith. In such circumstance, it could hardly be argued that the employer breached the implied term of trust and confidence.

This attempt will also provide evidence that the employees were informed of the employer intention to vary the programme before changes were actually implemented. In case a new agreement will be reached between employer and employees, it is good practice the employer to write a waiver letter to be attached to the original agreement or policy in order to prove that amendments were actually implemented with the consent of both parties (Brettle, 2003).

Gain-sharing

Albeit gain-sharing attracted a considerable interest within employers in the early 1990s, nowadays, the number of organizations having recourse to this approach has definitely considerably shrunk. Findings of the CIPD Reward Management Annual Survey (2011) revealed that just a meagre 3.6 per cent of the respondents said to have in place a gain-sharing programme.

Gain-sharing main peculiarity is that of being a collective programme likely to be introduced in different ways in order to better fit the different organizational needs. These schemes are hence typically "custom designed" and "idiosyncratic" to the organizations introducing them (Welbourne and Gomez, 1995).

As suggested by Bowey (1999), differently from other forms of variable financial rewards where the interests of the employer and that of the employee might be in contrast, the philosophy underpinning this form of incentive is "win-win" based: its introduction essentially aims at producing financial benefits both for the businesses and the individuals.

Another peculiarity of these plans is that they involve, and are directed to, the entire workforce. Employees will receive a cash payment, usually in the form of a bonus, on the basis of the enhanced financial performance realized by the business by means of their contribution.

Approaches to gain-sharing

These plans are based on a formula which is usually derived from the Scanlon, Rucker or Improshare approaches.

The Scanlon Formula

This formula takes the name from Joe Scanlon, a union official who in the early 1930s proposed an original solution to the ownership of a troubled steel factory in a bid to save the jobs of his union adherents. The proposal was based on the simple tenet that employees could share a quota of the costs eventually saved by the business in the production process due to the individual improved contribution. The idea at the basis of Scanlon suggestion is therefore that a quota of the fruits due to employees' enhanced productivity should be shared amongst these.

In order to implement this approach it is paramount determining the productivity rate to be used as a reference, which can be identified as the ratio of labour cost to revenues or sales. The formula can also take into consideration additional costs such as overheads, raw materials, services, etc. Gains which are attained by employers as a consequence of improved productivity by comparison with, for instance, the previous month rate, either in the form of cost reduction or increased output, are shared amongst staff.

The Rucker Formula

The formula proposed by Allen Rucker is essentially similar to that proposed by Joe Scanlon, the difference being that rather than the productivity rate this takes into consideration the value added, that is, sales minus the cost of products and services purchased externally. The formula is therefore:

Labour costs/Value added

Value added = sales – (products + services)

According to this formula, it is very likely that, as long as the business will be able to control the labour costs, a bonus will be paid to employees. Rucker maintained that, with the exception of maladministration cases, the value of the formula denominator (the value added) should remain rather constant over the length of time relevant to the extent of the formulae comparison, which entails that bonuses payment will mostly be subject to the efforts of both managers and employees.

Improved production through sharing – Improshare

This approach essentially aims at identifying the gains which can be shared amongst staff. It is based on determining the number of hours required for producing a given output which can be considered as a standard or reference. A bonus payment is therefore granted to individuals when these are able to produce the identified standard level output in a shorter time than that estimated and used as a reference.

Employee involvement

In order to companies increase their productivity rate the cooperation of employees, in addition to that of managers, is clearly of paramount importance. The process by means of which individuals contribute to the enhancement of productivity is usually called *involvement*. More in particular, involvement is intended as a practice enabling, or rather, encouraging employees to contribute their suggestions for their tasks and duties to be carried out in a more efficient and effective way and to propose and implement changes in the way these duties and activities are actually carried out.

Welborne and Gomez Mejia (1995) claim that the largest part of gain-sharing programmes (especially those based on the Scanlon and Rucker approaches) also provide for instituting two separate committees deciding, on two different levels, on the validity of the suggestions and advices proposed by staff. The first level committee is usually established at department level, whereas the second level committee is formed by one member of each department level committee and one or more members of the business top management.

Implementation key factors

By means of gain-sharing schemes and of the individual involvement associated with this, businesses should be able to attain better and sustainable productivity increases and enhanced organizational performance. Moreover, not only can this approach successfully be introduced when organizations are experiencing severe hardships, but, contrary to what could apparently seem, it can also effectively help public sector organizations to be more efficient. Indicators like enhanced efficiency and effectiveness and cost savings clearly fall within the scope of private sector employers and of public and non-for-profit organizations as well (Bowey, 1999).

It might seem that this approach should invariably bring priceless benefits to the companies introducing it. Notwithstanding, possibly by reason of being sorely demanding, it is in practice fairly neglected by employers.

The first decision organizations planning to introduce these arrangements need to make concerns the formula which has to be used to determine employee bonus. As discussed earlier in this paragraph, the most common way to compare productivity, and hence decide about bonus payment, could be that to compare the rate of productivity related to the current month to that of the previous one. However, this could give rise to a vicious circle in which employees will soon be trapped after a number of months or years. It is in fact unlikely that the level of productivity might endlessly be increased month after month or semester after semester according to the period considered for the payouts. Employers should hence first of all decide whether the ratio emerging from the formula has to be compared with another ratio (previous month, historical performance, average of the last "n" months, etc.) or whether it could be better decided to identify an objective level or target which once attained will elicit the bonus payment.

Even though the scope of the gain-sharing formula is that of measuring the increased level of productivity essentially achieved by means of employee contribution, in some cases it can also happen that the level of productivity actually drops. This is why employers should also decide beforehand what to do in such circumstances. Clearly no bonus will be paid, but some employers, for example, also use to establish a "deficit reserve" which will need to be compensated with future gains before bonus payments might be repeated again. Of this occurrence it is actually important taking due consideration when determining the rate of the gains which has to be held by the employer and the rate of the gains which has to be divided amongst the employees. According to the percentages identified, after a long period during which the business has suffered a loss, the percentage set in favour of staff might reveal to be insufficient to eventually pay off to the employer the money related to the previous loss period in a reasonable period of time (Murlis and Armstrong, 2004). In such circumstances employees should make a lot of sacrifices before seeing the fruits of their efforts being compensated in their salary slip again, this could discourage individuals and generate dissatisfaction amongst them, jeopardizing in turn the effectiveness of the overall programme.

Variable reward schemes

Once the rate of gains which can be divided amongst staff has been determined, it still remains to determine how this has to be divided amongst individuals. It is definitely important that the plan defines from the outset whether each employee would receive the same amount of money or whether payments will be, for instance, based on length of service or calculated proportionally to base pay.

Albeit gain-sharing programmes are organization-wide and represent therefore collective plans, individuals feeling of having contributed the most to the enhanced organizational performance might find it unfair that individuals with a high rate of absenteeism would be awarded the same way as others. This is an additional occurrence employers should take into careful consideration when designing the plan.

Another important element of the scheme is represented by the frequency bonus payments have to be made. The higher the frequency of payment, the more remarkable and visible should be the involvement effects produced by the scheme upon individuals. When identifying the payment frequency, particular attention needs to be paid both to the impact that too frequent additions payments might have on the payroll procedure and to the compatibility of the desired payment frequency with the identified variables corresponding measurability.

Introducing and implementing a gain-sharing plan requires that a series of activities are carried out. Bowey (1999) avers that gain-sharing is a system where a 5-steps process needs to be executed. In addition to the formula definition and the identification of the rules which need to be applied when determining how gains have to be divided amongst staff, that is, 1) the policy definition employers also have to care about the other important phases of these programmes development which are represented by 2) consultation, 3) tailoring 4) training and 5) implementation.

Consultation at all the business levels is fundamental in order to ensure the commitment to the plan of all the individuals forming the organization: from board to the shop floor.

Tailoring is concerned with identifying the elements on the basis of which to develop the plan and the formula at its basis. It requires assessing and determining the business areas and procedures which mostly require improvements. Improvements which can enable the organization to attain higher level of output, either quantitatively or qualitatively, or to reduce costs while maintaining unaltered the output in terms of quantity. The identified elements and areas need to have a common characteristic, that is, employees have to be in the position to exert a certain influence over these, otherwise this will reduce their involvement level, consequently jeopardising the successful implementation of the plan.

Training is both important to ensure that all of the employees have the skills and capabilities required to contribute to the desired enhanced productivity and that mid and senior managers know well, in order to properly and effectively explain these, the mechanism and the benefit of the plan introduction.

As usual, the success of the plan is dramatically depending on its execution. Findings of a research carried out by Ross et al (1992) revealed that "gainsharing success depends, to a very large extent, on management's ability to create a vivid, empowering, and energizing vision of what life will be like under the plan – how the plan will benefit the individual employee in significant and immediate way." The importance of management, for the particular role it assumes in the execution of the scheme is once again key.

Relevant data, that is, those necessary for the formula calculation, have to be made available to all the staff. The reliability of this has to be ascertained before making them public. Reward professionals should also ensure that the assumptions behind the identified formula are correct and that the chosen variables are consistent with the aim.

An integral and fundamental part of the implementation process is the monitoring phase. According to the frequency payments are made, an assessment of the indicators, data collection methodology and calculations need to be carried out in order to find out whether some errors occurred and eventually take appropriate action.

Bowey (1999) suggests a thorough assessment of the plan every eighteen months in order to evaluate results and enhance the scheme. Indeed, this activity is also aimed at re-invigorating the scheme and re-energizing individual contribution.

Communication is also very important, especially when the scheme is producing the desired results and the employer, but, more importantly, the employees are benefitting from it. Not only when introducing the new scheme in order to explain its mechanism, but also when results have been achieved and individuals receive the expected benefit, communicating results is hence paramount.

As it usually occurs with every type of scheme, plan and programme, gain-sharing is very likely to have both supporters and opponents. Research (Ross et al, 1992) shows that the reasons for individuals supporting the introduction and execution of gain-sharing schemes can be grouped into three main categories:

- *Involvement opportunity*: in that the scheme can be considered as an employee voice tool. Individuals can make suggestions on the way their work is carried out, which also represents a way to recognize the value of their skills and competency;
- *Positive organizational climate*: individuals will communicate and genuinely cooperate. This will in turn contribute: effectiveness to their work, better working conditions and enhanced productivity, ultimately positively impacting the organizational climate;
- *Personal benefits*: under this scheme individuals develop the feeling that they are important for the business, are treated fairly and receive adequate recognition. All of that contributes in turn to let individuals develop a more robust sense of job security and sense of belonging.

By contrast, the reasons why some individuals oppose gain-sharing schemes can be categorized into four groups:

- *Lack of trust in management*: the majority of opponents to the scheme usually consider it as a useful means for the organization and its management, but not for employees.
- *Lack of trust in the scheme*: it is not supposed to cause the payment of any significant bonus for individuals, if any. Additionally, many individuals do not trust the way the bonus is calculated.
- *General lack of interest for a bonus system*: in that considered as a meteor destined to fade any time soon.
- *The negative impact over base pay*: amongst the opponents of gain-sharing many consider it detrimental to the effect of a possible base pay increase. As long as a gain-sharing plan is in place, according to these, it is very unlikely that the organization could grant employees a base pay increase (Ross et al, 1992).

The likely restraining forces to gain-sharing implementation could be largely averted by means of a clear and open two-way communication process.

There are practically little chances that all of the employees might genuinely welcome the new plan, opponents will always be there and usually, albeit these may be a tiny minority, tend to amplify the negative consequences of the plan implementation. Employers desiring to sensibly increase chances that the new scheme would be accepted by staff need to convince as many employees as they can, preferably involving – where any – informal leaders, that the scheme is genuinely effective and that the benefits associated with this will be achieved by employers and employees as well according to the win-win tenet underpinning its design and development.

To this extent, the full support of the company management is of paramount importance. Whether managers would be able to explain and let individuals perceive the real benefits gain-sharing can bring to them as individuals and as a group in terms of involvement, participation, productivity, organizational climate and ultimately financial reward, chances that the scheme is accepted will dramatically increase.

Gain-sharing plans can also be used in combination with other variable pay arrangements. Bonuses are paid to staff only whether an increased level of performance or a real cost reduction is achieved, so that the payment of the bonus has not to be intended as an entitlement. Gain-sharing can be introduced in every moment; however, the use of the scheme can reveal to be particularly effective when the business is confronted with a particular strong goods or service demand. In such cases it can both help employees to virtually instantly realize the benefits of the scheme and the employer to more likely being able to successfully face the exceptional circumstances (Gainsharing Inc., 2012).

Notwithstanding, in recent times this approach has not caught the interests of the vast majority of employers. Putting aside the circumstance that gain-sharing is a fairly demanding scheme, the lack of interest towards this approach could be explained by the exogenous factor and more in particular by the economic landscape in which business are competing since several years. Albeit Gainsharing Inc. (2012) maintains that this scheme could effectively be operated also when the demand is stable or even declining, in that concerns could put in such circumstances emphasis on costs reduction rather than on performance enhancement, in practice employers might find it difficult to grant extra pay to staff in such situations.

According to the business needs and the circumstances, gain-sharing definitely represents an additional and valuable approach to reward management employers can have recourse to, in isolation or in combination with other incentives arrangements.

Profit-sharing

Profit-sharing schemes represent a form of variable pay according to which a portion of the profits made by the organization will be distributed amongst employees, either in cash or shares, regardless of the level of performance attained by the business and of employee contribution. In the past, profit-sharing programmes were mostly intended and implemented as deferred compensation schemes; payments were thus made directly to pension funds in order to increase employees' contribution to their individual plan or scheme (Masternak and Associates, 2013). Nevertheless, this practice has progressively faded away insofar as nowadays payments are nearly exclusively made in cash or share options.

Findings of a CIPD investigation (2011) revealed that only 13.7 per cent of respondents have recourse to this type of plans. In any case, a rate fairly superior to that emerged from the same investigation as regards the use of gain-sharing programmes (3.6 per cent). The study also showed that this approach is literally deserted by public, voluntary and not-for-profit organizations employers and that, even though it is applied at all the staff ranks, it is mostly used at senior management level.

The objective of this type of arrangements is clearly that of sharing with employees the financial success of the business and favour individual identification with the organization fortune and eventually misfortune. This approach can be considered as appropriate and suitable for an organization whether this is mostly aiming at increasing profit. Directly linking cash payments to profit making can effectively help employers to clearly let employees understand that the main business aim is in fact that of generating profit (Watson, in Robertson, 2007).

Habitually, the plan is extended to all of the employees irrespective of the circumstance that these may work in different locations, factories or branches, whereas the only factor considered by employers to determine individuals eligibility to profit-sharing payment is represented by a minimum period of service, usually identified with one year. Employers, as it actually rather frequently happens, may decide to introduce separate arrangements for high fliers and senior managers.

Factors that need to be assess when designing the plan

When developing and designing a profit-sharing plan reward professionals have to identify, consider and address some important and fundamental elements.

Payment frequency

The first decision which needs to be made concerns the frequency of payouts. Since the plan is associated with the year-end profit actually made by the concern, the most suitable approach to payouts frequency is that to refer to the financial year. Indeed, profit-sharing sums are at a very large extent paid annually.

Calculation methodology

Before deciding "how" to share, it is clearly important determining "what" to share. To this extent, employers may decide to determine first of all a threshold in order to identify and set the minimum level of profit they consider necessary to be made by the business for a portion of this being shared with staff. In this case a part of the overall profit will be distributed amongst individuals if and only if the profit made by the firm will exceed the pre-identified threshold.

Alternatively, employers could decide to determine the portion to be shared amongst staff as a percentage of the total profit made by the firm. This method, however, entails that a quota of the profit will be distributed also in those circumstances in which the profit made by the business is low. The risk associated with this method is that, in the outlined situation, the amount of the addition paid by the employer to individuals may reveal to be particularly small and give raise to employee disappointment and discontent.

In contrast with these methods, organizations could decide not to use any pre-set formula and leave to the exclusive judgement and discretion of the board the decision of the profit quota to be distributed amongst staff. This approach, however, is likely to be perceived by staff as sorely dubious and suspicious. As such, this method is very likely to also be perceived by individuals in open contrast with the objective of fostering employee involvement and favour individual identification with the business success (Armstrong, 2010).

Irrespective of the calculation methodology identified, careful consideration needs to be paid to the significance and value of the final sum practically paid to individuals. As just mentioned, the payment of a small sum of money could at best result as pointless and at worst produce counterproductive results. Habitually, employers use to distribute a sum from 2 to 5 per cent of base pay. However, the payment of a sum lower than 5 per cent salary is hardly recognized to be productive of any positive effect over individual commitment and motivation (Armstrong, 2010). Tulk (in Robertson, 2007) avers that a significant impact of profit-sharing payments over employee motivation can be attained by employers only whether payments represent between 7 and 12 per cent of individual pay.

The circumstance that the "what" an organization will pay is firmly associated with the level of profit made by the business, clearly accounts for this form of payment being variable from year to year. When eventually identifying the threshold triggering the payment, employers should avert fixing it at a too high or at a too low level. Too a high threshold level, considerably reducing chances that employees will receive any sum of money, is likely to produce suspicion and disinterest towards the plan; too a low threshold limit may account for the payment to be perceived as an entitlement, never mind fairly straightforward to attain.

Employers should pay due care to the circumstance that albeit the payment of profit-sharing is associated with an organization ability to make profits, the fact individual performance is not directly taken into consideration for the cash calculation might account for this form of reward being considered by individuals as an entitlement to a benefit (Masternak and Associates, 2013).

Distribution methodology
Determined which part of the total profit have to be distributed amongst staff, employers should subsequently decide how to share the identified amount of money.

As mentioned earlier, these can decide to pay individuals:

- An amount of money determined as a percentage of base pay, without considering any additional variable, as for instance, individual length of service, grade, contribution, skills, etc.;

- A sum of money calculated as a percentage of base pay or a fixed amount equal for all of the employees, to which a variable addition is added based on individual contribution or other variables;

- A fixed amount of money equal for all the employees regardless of any variable.

General rules
As suggested by Robertson (2007), in order to prevent spelling disaster when implementing the plan, employers should be careful when deciding about the right moment to introduce it. Strictly speaking, it should clearly be avoided introducing the scheme when some events very likely to negatively impact its implementation are known to occur. For instance, during periods of planned strong investments that will clearly negatively impact the business profits.

Since according to the mechanism of a profit-sharing scheme employees will receive a money addition only whether the business will make a profit, the scheme may reveal to be very effective to help organizations fostering team-working. Consequently, as suggested by Watson (Robertson, 2007), the scheme can also help employees to foster an organizational culture encouraging mutual cooperation and assistance or to put it in the Watson's words: "a culture where it's good to help."

Some commentators suggest that gain-sharing programmes are more likely to succeed into smaller to medium organizations with no more than 500 employees, in that, in such circumstances individuals can better identify with the business and better associate their contribution with organizational success. However, some cases such as that of the John Lewis Partnership, which will be discussed later, show that this is not necessarily invariably the case.

The plan is also considered to usually produce positive results within businesses where there is not a wide variety of roles, such as in manufacturing and, more in general, in those organizations in which a production line is in place and individuals broadly equally contribute to the final output (Robertson, 2007).

In order to profit-sharing plans being successful, it is crucially important to determine and to correctly identify what the most important objectives for the business and for the success of the plan are. This requires the organization senior managers working together and deeply investigating the business processes and mechanisms (Robertson, 2007).

The John Lewis case

One of the most successful cases, arguably the most successful case, of profit-sharing implementation is represented by the John Lewis Partnership.

Inasmuch as for the successful introduction of a profit-sharing plan profit has to be considered by the employer crucially important, Profit is considered one of the three founding pillars underpinning the John Lewis Partnership's (ILP) strategy, together with Partners and Customers.

More specifically, as regards the *profit* element the JLP's strategy states: "The Partnership should make sufficient profit to sustain our commercial vitality and distinctive character, allow continued development and distribute a share of profits each year consistent with Partners' reasonable expectations."

Indeed, so successful has revealed to be this three-leg strategy, that the JLP's 84,500 members are now used to see their "reasonable expectations" being regularly exceeded. In 2013, for instance, JLP members (represented by both John Lewis and sister company Waitrose staff) have seen their profit-sharing addition rising from 14 per cent to 17 per cent of their salary (Felsted, 2013). JL Partners are actually used to this type of performances; at year-end 2007, for example, they received a remarkable 20 per cent gain-sharing payout.

John Lewis, and hence department stores in general, represent a very good example of how profit-sharing schemes could reveal to be successful, in that, sales staff can by means of this plan better understand how their activity impacts on the organization performance (Charman, in Robertson, 2007).

In the JLP case, team spirit and employee identification with the firm are supported by the Partnership's strategy fostering the tenets of co-ownership and appetite for continuous improvement and innovation. By means of the three-leg model underpinning the JLP strategy the firm unrelentingly continues to show its "ability to compete against and outperform conventional companies" which, as outlined by the JLP strategy itself, represents the most compelling evidence of the effectiveness of the Partnership approach to business.

Profit-sharing v gain-sharing

Aside from the circumstance that under both a profit-sharing and a gain-sharing scheme employees can receive an additional sum of money and that payments are subject to the business performing well, the two types of plan are indeed fairly different.

Purpose and meaningfulness
The first noticeable difference between the two plans concerns their ability to actually and effectively motivate individuals. In general and excluding the certainly existing exceptions, gain-sharing is most direct and clear about what individuals have to do in order to achieve their objectives. Indeed, not only employees know what to do, but, under these schemes, these become also well-aware that what they do can actually help the business to achieve the pre-identified target; which represents in turn the prerequisite for the supplement to be paid.

Profit-sharing plans are weaker in this sense. Individuals, particularly in concerns with complex structures and where a wide variety of jobs and roles exist, are less likely to properly connect their actions and duties with profit making. Never mind, can these plans help individuals establish a direct and clear line of sight between their action and the final overall result.

According to Gainsharing Inc. (2012), profit-sharing programmes are likely to reveal more effective when applied to higher ranks of staff, those who have a more comprehensive and deeper vision and knowledge of the business and are therefore able "to connect the dots." Gain-sharing plans, establishing a clearer and direct link between individuals' activity and additions payment, can more easily and immediately be understood and, as such, are more likely to produce positive effects also at the shop floor level.

Albeit both types of schemes can actually favour team spirit and focus on the business, gain-sharing is potentially more powerful in this sense. People cooperate together and the result of this cooperation can potentially produce immediate effects, visible in the employees monthly pay slip. The same objective can be attained also by means of profit-sharing programmes, but this requires individuals being more focused on the overall organizational process and wider picture, which is less obvious and immediate and as such less likely to be understood by employees.

Masternak (2013) considers therefore gain-sharing programmes mainly aimed at driving business performance, whereas profit-sharing plans more intended to foster employee participation and identification with the business fortune and eventually misfortune.

Payments frequency
The different frequency of the payments characterizing the two types of plan actually contributes to reinforce the motivating effect induced by gain-sharing programmes and to further blur the cause-effect linkage existing between individual actions and the attainment of the final objective.

The circumstance that under a gain-sharing programme payments are usually made on a monthly basis, or at worst on a quarterly basis, clearly helps establishing and consolidating the relationship between individual actions and the significance of their activity for the attainment of the final aim and thus the payment of the cash addition. In contrast, the fact that profit-sharing payments occur, albeit for obvious reasons, annually does not actually help individuals to establish such a solid link.

Feedback frequency

Directly associated with the frequency of payment is the aspect of the frequency of feedback. Also in this case, gain-sharing programmes, by means of the frequent feedback typical of the scheme, can reveal to be more effective to motivate staff than profit-sharing plans are.

Indeed, finance functions within organizations are used to periodically devise reports about the organizational performance, but these reports are typically issued on a quarterly basis. Under a profit-sharing scheme thus it is unlikely that reliable feedbacks could be provided by mangers to employees at a higher frequency.

Gain-sharing programmes, by contrast, can enable managers to more regularly provide staff with valuable insight about the current level of performance, giving them the possibility to timely readdress the navigation route, whether required.

Entitlement to payments

A considerable difference between the two approaches also exists as for the variables used to determine whether the eligible employees have gained the entitlement to the addition payment or otherwise.

Gain-sharing programmes formulae are based on a limited number of variables represented by the most important costs essentially associated with the production process, its quality and the productivity level attained also by means of costs reduction. This, indeed, contributes to keep individuals focused on the cause-effect relationship existing between their actions and the final result attained by the factory or unit, which in turn prompts the additional payment of cash.

Differently, profit-sharing schemes payments are based on all of the business' financials, which actually represents the reason for individuals losing contact with the direct link existing between their contribution and the final result leading to the payouts.

Range of application

Another element contributing to differentiate the two approaches is represented by their different range of application. Gain-sharing programmes are typically applied at local level, that is, to a single factory, business unit or anyway to a single entity; whereas profit-sharing payments are typically extended to the overall organization.

The local and clear application of a gain-sharing programme to a limited and well-defined number of employees clearly favours individual association between contribution and payment, enabling employees to keep control of the line of site existing between these two elements (Masternak, 2013). In contrast, the circumstance profit-sharing plans take into consideration the performance of all of the different organizational units, blurring the impact of unit and individual contribution on the final result, accounts for these programmes being considered and perceived as less motivating by individuals.

Eligibility

In general, under a profit-sharing scheme, with the exception of directors and sometimes of senior managers and high-fliers, all employees are considered eligible to the addition payment. For the payouts a minimum period of service, usually one year, may however be required.

No restrictions are habitually applied to the eligibility of staff to a gain-sharing programme too, to which all of the employees are usually invariably admitted.

What occasions the payment

There actually are distinct reasons at the basis of the cash payment according to the circumstance that a gain-sharing or a profit-sharing plan is operated.

Under a profit-sharing plan payments to employees are made whether the overall organization has recorded a profit and, in those cases in which a threshold has been identified, whether this has been actually exceeded. The level of performance and the incidence of individual and team contribution are irrelevant to the extent of the addition payment to staff.

When a gain-sharing programme is in place, by contrast, payouts will be made only whether the level of performance recorded at the end of the period in question has revealed to be higher than that achieved at the end of the previous considered period or higher than a pre-calculated historical ratio or other reference. Payments are thus invariably linked to some improvements to which individuals have directly contributed also by means of maintaining a performance level considered satisfactory by the employer.

Funds

Both profit-sharing and gain-sharing actually represent self-funded plans. In both cases payments are in fact made only if a satisfactory level of performance or profit has been achieved. The money necessary to pay the cash addition to staff will invariably be generated by the better financial results attained by the business.

Types of payment

Albeit under the two schemes payments could also be made, at least in part, in the form of deferred compensation, more typical in the past of profit-sharing schemes, in both cases payment are nowadays mostly made in cash.

Some employers, in order to stress the existence of the link between enhanced productivity and additional payment, use to make separate payments of the addition due to gain-sharing programmes implementation. When considering this aspect, however, employers should also take into consideration the additional burden that such a practice may place on the payroll process administration and on the costs associated with this.

Employee involvement

In gain-sharing programmes employee involvement is crucially important for the successful outcome of the plan implementation. Their genuine understanding and support of the plan can therefore definitely be considered as a key factor. Employees involved in the plan design, development and implementation having an in-depth knowledge of the mechanism of the scheme will certainly act as advocates of the plan and hence as effective communicators. These will be able and keen to provide information and details to the other employees about the plan, favouring its successful implementation and stimulating, to some degree, individuals' suggestions and advice to improve the work processes and procedures.

By contrast, profit-sharing arrangements do not represent schemes conventionally characterized by employees' active participation. This may be considered rather normal, in that, the largest part of variables behind the schemes may reveal to be rather difficult to be understood by the rank and file employees. Whether involved in the design and implementation process, these would be likely to experience some difficulties when prompted by their colleagues to explain in detail the mechanism of the scheme and of the formulae behind it.

Training and communication acquire *a fortiori* an even more crucial role when a profit-sharing scheme is in place. Employers considering this approach suitable should strive to keep the employee interest in the scheme alive by means of constant and frequent communication campaigns aimed at illustrating the current profit trend and the expected likely end-year final result. In the communication process should also be clearly involved senior and middle managers, who should previously be accurately trained in the way the plan functions and operates.

Entitlement or variable pay

Under gain-sharing schemes it is rather unlikely that individuals might lose sight of the link existing between their contribution and the additional payment. As such, this is broadly perceived and seen as a variable form of pay which, in order to be repeated, needs to be re-earned.

The circumstance, by contrast, that the line of sight of the link existing between individual contribution and payments might not be so firm and stable throughout a year, contributes to profit-sharing payouts to be perceived by individuals more as an entitlement, or rather, an employee benefit, rather than as a variable form of pay (Masternak, 2013). This is actually also why some commentators consider, apparently paradoxically, useful for the sake of the scheme, organizations not meeting the pre-identified requirements to pay profit-sharing additions to staff every now and again.

Effects on employee attitude and behaviour

On account of the direct, visible and constant link which gain-sharing programmes establish and maintain between individual contribution and site's increased performance, and in turn cash payment, it is possible to sustain that these plans have a positive impact both on individual attitude and behaviour.

The circumstance employees can practically see that their work and involvement produces a significant visible effect, contributes to increase their sense of belonging and ownership and favour their identification with the firm. All of that also accounts for individuals genuinely building and reinforcing the idea that their contribution is valuable for the organization and helps improve the business performance. This clearly ultimately produces a remarkable impact on individual behaviour and attitude towards the work and the team.

Profit-sharing schemes are very likely to impact individual sense of participation and identification with the organization. Employees in fact receive a tangible benefit whenever the business makes profits, differently individuals will receive nothing.

It is unlikely that for the rank and file employees the lack of a profit-sharing payment might be perceived as directly linked to their performance. There are many other variables and elements affecting the final overall organizational performance which in fact remain out of their control (Masternak, 2013). However, also in this case communication can reveal to be a remarkable, powerful tool to help employers to overcome the problems associated with this type of scheme.

In any case, the success of both profit-sharing and gain-sharing programmes is clearly associated not only with the way these are designed and developed, but also with the way these are implemented and communicated to the entire staff.

Employee share ownership plans

Under the wider category of employee ownership plans fall all of the schemes designed and introduced by employers to reward employees by means of granting them a number of the company's shares and offering them the opportunity, or option, to buy an additional number of these.

The final aim of such schemes and the underpinning concept behind them is hence that of fostering and encouraging co-ownership and increasing the individuals' feeling of identification with the firm.

Employee ownership plans can be implemented by means of employee trusts, attributing employees the direct ownership of shares or by a mixture of these two approaches. In the first case the company shares are purchased and held by the trust avoiding as such that these are transferred to employees (Postlethwaite, 2009).

Variable reward schemes

In the UK, over the last years, the number of co-owned firms has crept up, insofar as a considerable number of firms are nowadays co-owned and, in some cases, even employee-owned, that is, totally owned by employees.

Approved and unapproved employee ownership schemes

Employee ownership schemes which receive the Inland Revenue and Customs approval benefit of a definitely favourable income tax, National Insurance Contributions (NIC) and capital gains tax (CGT) treatment. Employees holding shares of the company they work for acquired under this type of schemes hence avail themselves of remarkable tax reliefs.

On the other hand unapproved employee ownership schemes, albeit being taxable, provide employers with more flexibility in the development and management of the plan. For these schemes in actual fact regulations do not fix any limit both as regards the financial value of the shares which can be bought by employees and their right to exercise shares options to acquire additional shares.

It is important to point out that, for individuals having acquired shares of the business they work for under an unapproved employee ownership scheme, the obligation of having to pay taxes arises at the moment in which the option is offered and not at the moment the option is exercised. Since income tax is payable by individuals resident, or usually resident, in the UK at the moment the shares option is offered to them, this obligation persists regardless of the place individuals will be resident at the time they exercise their option (Emery, 2003).

Approved employee ownership plans

Share Incentive Plans – SIPs

Under these schemes employees are offered the possibility to buy company shares, whereas the employer can decide to grant employees additional shares for free.

All of a company's employees are usually considered eligible to participate to such schemes, which are mainly managed by means of trusts where shares remain for a period of five years.

Strictly speaking, a share incentive plan enables individuals to acquire company shares in three different forms:

Free shares – The offer of this type of shares, which are given by employers to employees free of charge, is: subject to an annual value limit, depends on organizational performance and may also be related to individuals' length of service, pay and hours worked. Employees can hence lose the right to receive this type of shares whether, for instance, performance objectives have not been met. This right, however, cannot be lost after three years from the shares award (Emery, 2003).

Participants to the scheme do not pay on the shares value any NIC or income tax.

Within the annual value limit set by the law, free shares can be allocated by employers anytime.

Partnership shares – Are shares which can be bought by employees, on the basis of their gross pay, within the pay portion limit defined by the Inland Revenue and Customs.

As regards taxes, employees do not need to pay any NIC and income tax on the quota of their salary used to buy this type of shares.

There are no circumstances under which individuals can lose their right to buy partnership shares. Differently from free shares, however, this type of shares cannot be freely assigned by employers to employees throughout a financial year, but can only be allocated once a year or every month.

Employees can purchase partnership shares using the money they have saved every month by means of an accumulation plan whose duration cannot exceed twelve months.

The share price will be the lower value recorded by the share between the beginning and the end of the accumulation period. The risk of the share depreciation in the regular market is thus transferred from the employee to the employer (Postlethwaite, 2009).

Matching shares – Are a type of free shares awarded by employers to employees at the rate of up to two matching shares for each partnership share purchased by the employees. These shares are hence allocated at the same moment as partnership shares are, to which these are actually directly linked.

Employees can lose their entitlement to receive matching shares whether they decide to leave the business without the employer consent.

Also in the case of matching shares, participants need to pay neither the NIC nor the income tax.

Share incentive plans clearly represent the best tax-efficient form of employee ownership plans. NIC and income tax are in fact not due both for free and matching shares. Furthermore, taxes have not to be paid by employees over the portion of pay they use to purchase partnership shares. Yet, no capital gains tax will be due whether the shares acquired by employees are maintained in the scheme till their disposal.

Whether, after having been taken out of the scheme, the shares are held by an employee and this dispose of them at a later time, the shares value taken into consideration to the purpose of the capital gain calculation will be the shares market value at the time of their withdrawal from the scheme.

When designing these plans, employers have to duly consider and regulate the case in which an employee leaves the organization during the period his/her shares are still held in the scheme. In order to income tax and NIC benefits to be effective a qualifying five-year period time is required. In order to avoid pointless disputes, employers should clearly outline in the plan's regulations that, in case an individual would leave the employment during the qualifying period, this could lose NIC and income tax reliefs on his/her shares depending on the reason for leaving.

Unless individuals' decision to leave their job is not justified by "good reasons", it is also very likely that employees leaving their job during the first three years of participation to a share incentive plan would lose their right to free and matching shares (Postlethwaite, 2009).

All in all, it is quite evident that share incentive plans are rather demanding schemes and that, in order to be properly managed internally, the necessary resources need to be made available by employers. A register of all the employees participating to the scheme, containing accurate and up-to-date records of: the enrolment date of each employee, the number of shares and the type of shares held by each of them is therefore definitely important. This will help employers to determine the correct tax treatment to apply to every individual and to promptly determine whether free and matching shares have to be eventually forfeited to leaving employees or otherwise (Postlethwaite, 2009).

Employers should also decide from the outset whether the employees participating to a share incentive plan and about to leave the organization could remain shareholder of the company. Whether employers would like to avoid this circumstance to occur, they should include in the scheme a proviso stating that before leaving the individual's shares have to be sold to the other company employees.

Advantages of share incentive plan *for organizations*
Inasmuch as the introduction of share incentive plans provides unquestionable benefits to employees, employers benefit of valuable advantages of these schemes too.

The tighter identification of employees with the business fortune should first of all provide individuals with a genuine and keen interest in the business results. It is therefore very likely that an increased level of employee involvement and consequent more genuine contribution to the attainment of the organizational objectives would produce by turns appreciable effects on the firm performance.

Inasmuch as this effect might be weaker during periods when an organization activities are flourishing, these plans are likely to produce a much more visible and appreciable outcome during downturn and slowdown periods, when appropriate and frequent communications may make employees understand the importance of their contribution and the benefits it can produce for the firm recovery.

It cannot be underestimated the fact that these plans can be effectively and successfully used in combination with profit-sharing schemes, circumstance under which the two plans are very likely to produce valuable synergetic effects.

Both employees and organizations benefit of tax reliefs on the payment of NIC for the portion of pay used by individuals to buy partnership shares, whether these are kept in the trust for the period of five years. Additionally, the costs faced by the company to offer employees free and matching shares are deductible for the calculation of corporation tax.

Amongst the advantages offered to employers by these schemes have not to be neglected those represented by the forfeiting of free and matching shares whether employees should leave the firm due to dismissal or resignation within three years of the scheme participation. Furthermore, free shares are offered to individuals only whether the business has attained a good level of performance (Postlethwaite, 2009).

Save-as-you-earn (SAYE) schemes

These schemes are characterized by the option granted by employers to employees, meeting the pre-set service requirement, to purchase a determined number of the company ordinary shares at the current price and at a predetermined moment in the future. Employers could alternatively decide to offer the shares to employees at a price no less than 80% of their worth, that is, applying a discount of up to 20% of the shares current market value.

Under this scheme, employees are offered the options to purchase the company shares in three-, five- or seven-year time. The period of time over which the shares purchase needs to be completed, however, has to be established from the very beginning and the option exercised within six months from its maturation (Emery, 2003).

Employees wanting to buy company shares under a save-as-you-earn scheme have to save a pre-agreed monthly sum, deducted from their salary, whose amount is currently fixed in the UK between £5 and £500. The shares purchase is thus essentially funded by these monthly savings. Indeed, employees will be offered the option to buy the organization shares only whether these accept to save a monthly quota of their salary in this account for a minimum period of three years. Money saved in this specific account also generate an income tax-free interest bonus whose rate is determined by the HM Treasury.

With the exception of an option being exercised within three years from the moment it has been granted, Income tax and NIC are not normally due at the moment the option is actually granted and exercised (Emery, 2003). Whether an employee sells the shares which have provided him/her some gains, this will need to pay the capital gains tax on any profit made till the sale moment. However, also in this case, the employee receives a benefit because the amount paid in terms of capital gains tax will certainly be lower than that which he/she should have paid in terms of NIC and income tax.

The capital gains cost is determined on the basis of the shares values at the time of exercising the option. In the event an individual has exceptionally paid income tax in that occasion, the cost of the shares will be determined including the amount paid as income tax.

Employees to whom the employer has granted the option to buy company shares under a save-as-you-earn scheme do not necessarily need to buy the shares once these have matured the option. Albeit unlikely to occur in practice, in this case employees will eventually take back the savings put in the specific account and the related bonus.

Managing a save-as-you-earn scheme is in general easier and more straightforward than administering a share incentive plan. However, particular care should be taken by employers to accurately record information about the people participating to the programme in that these would reveal to be particularly useful when some employees should leave the organization. Individual right to exercise an option in fact depends on the reason for, and the period of, leaving; the case being, these data need to be promptly made available.

Individuals leaving the organization for redundancy, disability, injury, death or statutory retirement-related reasons before having completed the repayment as initially planned, can exercise their options according to the sum of money they have saved. By contrast, participants to the scheme who have left the business during the initial three-year period of the granting of the option cannot exercise any option.

Employees who leave the organization after three years that the option has been granted are allowed to exercise the agreed option only whether this circumstance is provided for by the scheme rules and, in any case, according to the sum of money they have saved in the special account (Postlethwaite, 2009).

Also in this case, employers should decide at the outset whether the participants to the scheme who have decided to leave the concern can hold the business shares or otherwise. The plans regulations should therefore include clear indications about how to manage this type of situations and eventually include a provision requiring employees to sell their shares within the business before leaving.

Advantages of save-as-you-earn plans for organizations
Save-as-you-earn plans offer employers the same benefits offered by share incentive schemes in terms of employee identification, involvement and commitment. However, these schemes are easier to implement and administer in comparison with share incentive plans.

The employer's tax benefits produced by these programmes relate to the circumstance that the gains made by employees can be considered, to the extent of the corporate tax calculation, as employer's expenses (Postlethwaite, 2009).

Capital gains tax avoidance
Individual Savings Accounts - ISAs
Employees can avoid the payment of the capital gains tax by directly transferring the shares hold on a share incentive scheme or a save-as-you-earn plan to an Individual Savings Account (ISA). This capital gain taxes relief is actually subject to a financial limit;

within the shares value limit, this will not be due on the transfer of the shares or on their disposal in the individual savings account at a later time.

Personal and stakeholder pension schemes
In some circumstances, the shares owned by an employee can be directly transferred from a share incentive plan or save-as-you-earn plan to a personal or stakeholder pension scheme. However, whether employees should dispose of their shares and make a gain, this could be subject to the capital gain tax. Only whether shares are directly transferred from a share incentive scheme to a pension scheme capital gain taxes do not need to be paid.

Designing and developing employee ownership plans
After an employer has made the decision to introduce an employee ownership plan, careful consideration needs to be given to the choice of the type of scheme. In order the scheme to be welcomed and appreciated by employees, and hence successful, it needs to attract as many employees as possible.

Employees at large may be glad to become shareholders of the business they work for, but they clearly need to have the necessary funds to accomplish their desire. A share incentive plan enabling employees to buy the company shares and benefit of tax reliefs can represent the right option as far as employees possess the required amount of money; differently giving employees free shares may reveal to be the most suitable option to investigate and execute.

Especially whether employers should believe that it is unlikely that the company shares could be bought internally, these should seriously consider the option of establishing a trust and leaving there a quota of the shares. These measures would enable them to control the number of shares object of exchange and to avert having to deal with the unpleasant circumstance that part of the shares may remain unsold (Postlethwaite, 2009).

As for all of the other reward-related initiatives, also in this case communication is of paramount importance. Employers and reward managers need hence to ensure that accurate and frequent communication is established between the company and staff. The main aim is obviously that to inform employees about the business performance, irrespective of its real level, so that this needs to be regular and reliable. In the event the company should be experiencing hardships negatively impacting its results, these should be clearly and transparently outlined in the communications addressed to the employees. The description of the reasons accounting for the eventually disappointing performance and an outline of the plan of actions identified to overcome difficulties should also constitute integral part of the communication established with staff.

The simpler, the better. As for every reward scheme and plan, keeping the mechanism of the scheme simple and easy to explain and understand will help the effective and successful introduction of the scheme, never mind its implementation. The use of the corporate intranet, where a specific section including information about the business and its shares performance could be introduced, micro websites, flyers, guides and posters could all represent suitable and effective means to support the communication process.

Unapproved employee share ownership plans

Company share option plans - CSOPs

Unapproved company share option plans can be considered as an extension of the approved company share option plans. Since the approved plans are operated within the shares value limit provided for by the law, the unapproved schemes can be used by employers to exceed that limit. In order not to miss the benefits provided by the approved company share option plans, the unapproved plans are essentially habitually operated in addition to the approved schemes. By means of unapproved share option plans employers are able to offer company shares to employees up to the limit of four times their earnings.

Long-term incentives plans – LTIPs

These plans are introduced by employers in order to encourage employees to hold the free shares received from the business under this scheme as longer as they can, rather than selling them at the first occasion. Free shares can be offered to all of the employees with the only prerequisite of a minimum length of service. Consistently with the scope of this type of schemes, with the exception of illness, statutory retirement and redundancy, these plans typically provide for individuals voluntarily leaving the organization to lose their entitlement to free shares.

Restricted shares schemes – RSSs

Under these schemes employers essentially give employees a number of shares for free with the main intent of retain their beneficiaries.

The shares given by employers to individuals are indeed characterized by a number of restrictions in terms of: possibility to be sold, right to vote, transferability, participation to dividends, etc., practically limiting their financial value. These restrictions are however gradually removed, over a predetermined period of time, making these shares more appetizing with the passing of time. These plans could be either extended to all of the employees within a business or limited to some of the employees or groups of individuals. The offer of these shares usually depends on the attainment of a pre-identified level of organizational performance.

NIC, income tax and CGT

The unapproved employee ownership plans do not clearly benefit of the tax reliefs provided for by the law in favour of the approved schemes.

Employers should however identify and made decisions about the most suitable scheme to introduce and administer within their organization on the basis of the scope these want to pursue and not exclusively considering, albeit undeniably non negligible, the tax advantages which a plan could enable employees and employers to receive vis-à-vis the others.

Competency-related pay

According to the mechanism of this approach managers should make pay decisions about their direct reports on the basis of the level of competency these gain with reference to the role they fill.

Consolidated pay increases are hence conferred to individuals showing to have the capabilities to perform at a higher-than-average standard not only presently, but in the future as well. This scheme is potentially particularly effective in that enable managers to award and recognize employees by means of pay increases within any given grade pay brackets, without any need to necessarily offer them a career progression to the higher grade or level of the organizational pay structure.

The first dilemma managers have to face when having recourse to competency-related pay, however, concerns the identification of what it is meant by the use of the term competency. Some substantial differences have in fact been identified by some Authors and practitioners between the meaning of the terms "competence-competences" and "competency/competencies." The problem may apparently seem as overly rhetoric or exceedingly terminological; indeed, making a clear distinction between the two terms may effectively and very practically help managers to identify what they have to observe and on what aspects they have to focus their attention in order to make sound and sustainable pay decisions. This would in turn enable managers to more appropriately define and recognize the most effective and suitable ways to assess these features and characteristics.

As stressed by Neathey and Reilly (2003), for instance, a different meaning can be associated with the two definitions provided in the late 1980s by the UK Government when introducing the National Vocational Qualifications (NVQs) and Boyatzis (1982) just a few years earlier. The UK Government essentially defined competence, for the NVQs purpose, as a set of qualities enabling an individual to perform well. Competence is thus considered as an occupational standard reflecting what level of performance and results competent individuals need to be capable of yielding in their area of expertise. Differently, Boyatzis (1982) defined competency as an "underlying" feature of an individual leading or causing this to deliver effective or superior performance. The Author also pointed out that competency has not to be confused with behaviour and that it is not correct, as many people do, consider particular types of behaviour as skills. He also added that whereas it is debatable considering behaviour as a skill, it certainly cannot be considered as a competency.

All in all, it can be concluded that the main connotation associated by the UK Government with the term competence refers to the final result or output to which the superior performance eventually leads, output which also have to be identifiable and assessable; whilst the Boyatzis' definition seems to mostly focus on the way the outcomes are produced and not simply on the final output. In this sense, individuals should be rewarded for the way they work and not, or rather, not exclusively for the final results these produce.

In order to define the terms competency and competence, Armstrong (2010) uses an approach essentially based on the difference existing between "hard" and "soft" capabilities of an individual. He relates behaviour to competence, whereas technical skills to competency.

Indeed, managers involved in the execution of this type of programmes also need to decide whether to reward the use or the acquisition of competencies. Albeit it can be definitely averred that emphasis should be put on the use, rather than on the mere acquisition or expansion of competencies, whether this tenet would be restrictively interpreted the implementation of competency-related pay could reveal as having neither practical nor distinctive consequences vis-à-vis the execution of a performance-related pay scheme (Armstrong, 2010). Making pay decisions exclusively taking into consideration the final output or the results produced by individuals in fact might made it pointless differentiating whether those results have been produced thanks to the additional competency gained by an individual or otherwise. Once the individual level of performance has been assed, whether considered appreciable and above average, this can be rewarded accordingly; whereas it might be beside the point, at that stage, trying to determine to what extent that performance level has actually been affected by the employee competency. On the other hand it cannot be denied that it would also be pointless rewarding individuals taking into account the competencies these have gained, whether these have not produced any visible and appreciable result in practice.

Once again, the issue may apparently seem overly rhetoric, however, since, as we will discuss later, measuring and assessing individual performance is everything but a straightforward exercise to do, it is paramount that the firm's management clearly understand how to assess individual competency, vis-à-vis performance, in order to make accurate and fair pay decisions.

To determine on which basis managers should made their decisions about individual pay there actually is another significant element which needs to be considered, that is, the identification of the main objectives employers want to pursue when deciding to develop and introduce such a type of scheme. Employers introducing competency-related pay are habitually keen to foster, encourage and favour the company human capital development and individual vertical growth and provide evidence that the business need and care for competence. The aim is, therefore, to ensure that individuals within the business are given the necessary opportunity to extend their competence in order to be able to perform well at the present time and in the future as well. Amongst the reasons employers decide to introduce this type of scheme there is also that to ensure, the case being, to the employees included into any given pay grade, progression within the same grade without any need to promote these to a higher grade in the pay structure.

Some employers introduce competency-related pay in order to overcome the constraints typical of the other types of reward schemes and because consider these plans more far-reaching than systems focusing on performance output measurement only, such as performance-related pay schemes (Neathey and Reilly, 2003).

Whether employers want to avoid having recourse to such an approach as a substitute for performance-related pay, these should avert to make pay decisions only on the basis of the assessment of the final output produced by an individual. Differently, employee expectations will remain unfulfilled and the introduction of the scheme will inevitably result inconsistent and even in open contrast with the original intended aim.

The way competency should be matched with performance should rely on the real reasons behind the individual output, that is, the fact that the employee has produced an above-the-standard level of performance due to the competency he has gained and has been able to effectively and successfully use. Managers' decisions about individual pay need hence to be based on the individual capability to extend his/her competence and being able to effectively use this; which will ultimately lead to an increased level of performance. Competency-related pay schemes should thus aim to reward individual ability not only to gain competency, but also to effectively and properly use this in order to ultimately quantitatively or qualitatively enhance their output level. Gain and use need hence to necessarily coexist.

Explained in these terms competency-related pay arrangements would noticeably resemble to contribution-related pay schemes. In order to keep its identity, the mechanism of this type of pay arrangements should hence exclude any performance-assessment involvement. Whatever, and according to the degree of, the role played by performance measurement, this would lead to consider this type of pay arrangements as a disguised performance-related pay scheme at worst or a contribution-pay scheme at best. The mechanism of the purest of the purer competency-related pay schemes should be essentially based on rewarding individuals exclusively on the basis of the competency these gain, acquire and possibly use irrespective of the results they obtain.

These programmes should be thus seen and introduced as a form of investment for the future; employers decide to care less for the present results putting emphasis and, to some degree hope, on the future level of expected increased employee performance. It is actually very unlikely that in practice employers could be genuinely interested in developing and introducing such a type of pay arrangements, which very likely explain the reason why this approach has not met the favour of a considerable number of employers. Indeed, also in those cases in which a competency-related pay scheme has been introduced, all too often it is not operated in its purest form.

It can finally be agreed with Zingheim and Schuster (2002) that pay arrangements based on competency assessment, which would result even harder to measure than performance, are essentially woolly and ambiguous.

Inasmuch as measuring performance is a very complex and uneasy task to perform for managers, trying to measure and assess competency, especially whether a well-devised and tested competency framework should not be operating within the organization, could reveal to be a virtually impossible task to execute. Notwithstanding, the task would clearly become harder whether it would not be crystal clear for the managers the meaning of the term competence or competency, which will be interchangeably used thereafter.

Skill-related pay

Whereas the concepts of competence and competency are mainly associated with individuals' ability to improve and enhance their capabilities to more properly and effectively carry out their current job, the concept of skill is mostly linked to the idea of employees being able to quantitatively expand the range of their capabilities and abilities in order to perform different types of tasks, duties and therefore works.

According to the mechanism of these pay arrangements an individual will receive a pay increment whether this has gained new capabilities and skills enabling him/her to perform an increased number of duties and works within the business.

Just like competency-related pay, skill-related pay represents an approach to base pay centred on the individual, rather than on the job (Armstrong, 2010). Under this type of schemes employees' pay is in fact determined on the basis of the variety of tasks they are able to perform due to the range of skills and capabilities these have gained, rather than strictly on the basis of the level of pay associated with the individual relevant grade.

The use of this approach to pay can thus reveal to be particularly effective in conjunction with broad-banded and career-family structures. In these cases pay progression through the pay range of any given grade can be justified and sustained on the basis of objective grounds, that is, the number of additional tasks an individual is able to perform.

Also in this case, however, a certain attention to the quality of the output produced by employees cannot be completely overlooked. As such, skill-based pay arrangements can enable employers, as in the case of competency-related pay, to grant individuals consolidated pay progression within any given grade, averting to concede a grade or level increase whether deemed unnecessary. The final aim is essentially that to reward within the existing grade horizontal growth and by promotion to the upper grade vertical growth.

The most compelling reason for introducing this pay approach, whether deemed appropriate, is however represented by the increased level of flexibility it unquestionably enables organizations to attain. The circumstance individuals within the business are able to perform different tasks, and hence jobs, permits employers to better vary the organization of work and to more effectively cope with the different workloads of the various organizational units according to the possibly changing conditions. Never mind the possibility this approach offers employers to find immediate internal solutions when the need to cover for some individuals, who may be absent due to unforeseen circumstances, should arise.

Skill-based pay should also effectually help employers fostering teamwork within the business. Directly linked to this aspect is the likely circumstance that, by performing different works within the concern, individuals should be put in the position to better understand the worthiness of their job and how this contributes to the attainment of organizational success. Employees should thus be more willing to collaborate and better understand how their activities relate with the activities carried out by the other colleagues for the attainment of a mutual objective, that is, organizational strategy.

In contrast to pay arrangements based on competence assessment, which should encourage vertical career, skill-based pay arrangements should provide individuals more opportunities for horizontal or lateral career development. This could in turn contribute to foster a multitasking and cooperative organizational culture, where individuals would care and take initiatives for their horizontal development as a way to enhance their working ability, favour personal growth, improve their marketability and effectively work in team to yield better results.

Skill-related pay schemes, whether properly developed and most of all executed, can really provide a wide array of benefits for employers and employees as well. These programmes can be indeed considered as a valuable ally of job design and enable as such individuals to be much more involved in their working activities. This may provide in turn employees with a higher degree of job satisfaction from which should ultimately derive a higher level of intrinsic motivation by reason of these having clearer the significance of their job.

Pay arrangements based on employee skills-expansion can actually effectively enable employers to provide a clearer line of sight of the link existing between business and reward strategy also to the firm rank and file. Such a scheme can in fact help employees to understand how the employer uses rewards to support the business for the attainment of the pre-set objectives.

In order to avert falling into the pitfalls typical of this approach and improperly, unfairly use it, the first stage of a skill-related pay scheme development should be represented by a phase during which the business management identifies all of the skills they consider useful in order to face and deal with the current and likely future problems and challenges. Due consideration will also clearly be given to the skills considered necessary by the employer to effectually carry out the day-to-day working activities and ensure the correct and efficient functioning of the business operations.

These pre-identified skills are then grouped as far as possible into homogeneous or consistent bundles or clusters. Whether applicable, clusters should be formed in a way enabling individuals to gain an appropriate knowledge and control of a working process or cycle.

When devising skill-groups managers should also consider the current and potential interrelationship existing between the different skills and envisage how these could actually be associated the one with the others in order to produce the additive, multiplicative, synergetic effects typical of the bundle approach used in HRM models. The right combination of skills functionally included into groups can ultimately effectively help employers to attain competitive edge.

Skills bundles need subsequently to be ordered according to the growing significance associated with the skills included into each group. This will mainly depend on the degree of complexity these require, but also on the frequency of use and on the likely imminence these could be required by the employer in practice.

In order to receive consolidated base pay additions individuals will need to demonstrate not only that they have gained all of the additional skills included into any given bundle, but also that they are capable of effectively and successfully using these (Armstrong, 2010).

When individuals show to have gained all of a cluster's skills and to be fully confident of their practical use, these will receive the appropriate pay increase. It goes without saying that before pay increases would be formally granted, the new skills possession and use should be previously assessed by managers. This would clearly imply that a sound and effective skills assessment system is in place (Armstrong, 2010). Indeed, this is not always as a straightforward task as it might apparently seem and in any case it will surely reveal to be a fairly demanding process. In order to avoid jeopardizing the mechanism of the overall system and avert that this phase could result to be inaccurate and ineffective, employers have to do their utmost to put in place the required resources.

Organizations should clearly put in place all of the necessary resources not only to assess the skills gained by individuals and their capability to successful use these, but also to provide the training sessions necessary for employees gaining the skills included in each identified cluster.

Albeit skills-related pay arrangements can reveal to be rather effective and useful for employers introducing them, there are some important aspects which need to be taken into consideration before deciding to definitely embrace this approach.

As suggested by Armstrong (2010), these schemes are fairly demanding and costly both during the preparatory and the implementation phases. The preliminary investigation needed to identify the required skills, the costs associated with the training sessions to be provided to staff and the final assessment stage, clearly require a considerable amount of both human and financial resources. Moreover, this three-stage process – skill-need investigation, employees training and skills assessment – should be carried out on a regular basis within the business so that the resources necessary to carry out all of these activities do not represent a one-off investment, but rather a regular investment employers should regularly consider when drawing up their budget. Reward specialists should not neglect the importance of regularly carrying out the skill-need investigation activity in order to the business being ready in case changes to the way the work is carried out within the business should be required. This process would definitely reveal to be useful also in order to assess the training needs emerging in case, for instance, the employer would plan to introduce and employ new technologies within the business.

One of the major pitfalls employers should absolutely avoid falling into is that to include into skill-bundles some types of skills which may not be constantly, or rather, frequently used by employees. On the one hand this would represent a massive waste of money for the pointless training sessions provided to individuals; on the other hand this is very likely to generate disappointment amongst employees for these not having the opportunity to use the new skills these have gained. But this is not all; other two negative outcomes are likely to be triggered by such circumstance. Once the consolidated salary increases have been granted to an individual there would be little, if any, chance to reduce the individual pay to the pre-existent level. Yet, in the event an individual should not be put in the position to use any given set of skills with a certain frequency or regularity, it is likely that when prompted to use these skills the individual will not be able to perform at the expected level.

All in all, it is evident that this approach to pay implies a considerable increase of the personnel budget which, in some circumstances, may also reveal unjustified. However, this should not deter employers to investigate the opportunity to introduce this type of scheme, but should rather sensitize employers to think thoroughly on the appropriateness and suitability of such an approach for the business before introducing it.

Whether flexibility would definitely represent a remarkable asset for the business, the employer has already experienced some difficulties for the lack of flexibility (whose costs may also been already known and quantified) and it is supposed that the introduction of a skill-related pay programme could help the business and its management to re-energize staff, this approach should be definitely considered as a valuable option. What matters, as usual, is the way the scheme, once eventually introduced, will be practically operated and executed.

Contribution-related pay

Under a contribution-related pay scheme pay decisions are essentially made by managers taking into consideration a combination of the main features of both performance-related pay and competency-related pay programmes. As such, these schemes can be considered as hybrid programmes by means of which employers intend to recognize both individual attainments – that is, past performance, and the significance of the competence employees have gained throughout their working experience enabling them to achieve higher level of current performance and, potentially, of future performance – that is, development.

This approach to pay management is therefore bi-dimensional in that based not only on the level of individual past performance and contribution, but also on the potential further enhanced level of contribution which individuals can make by reason of the additional competency these have gained and are still capable of extending.

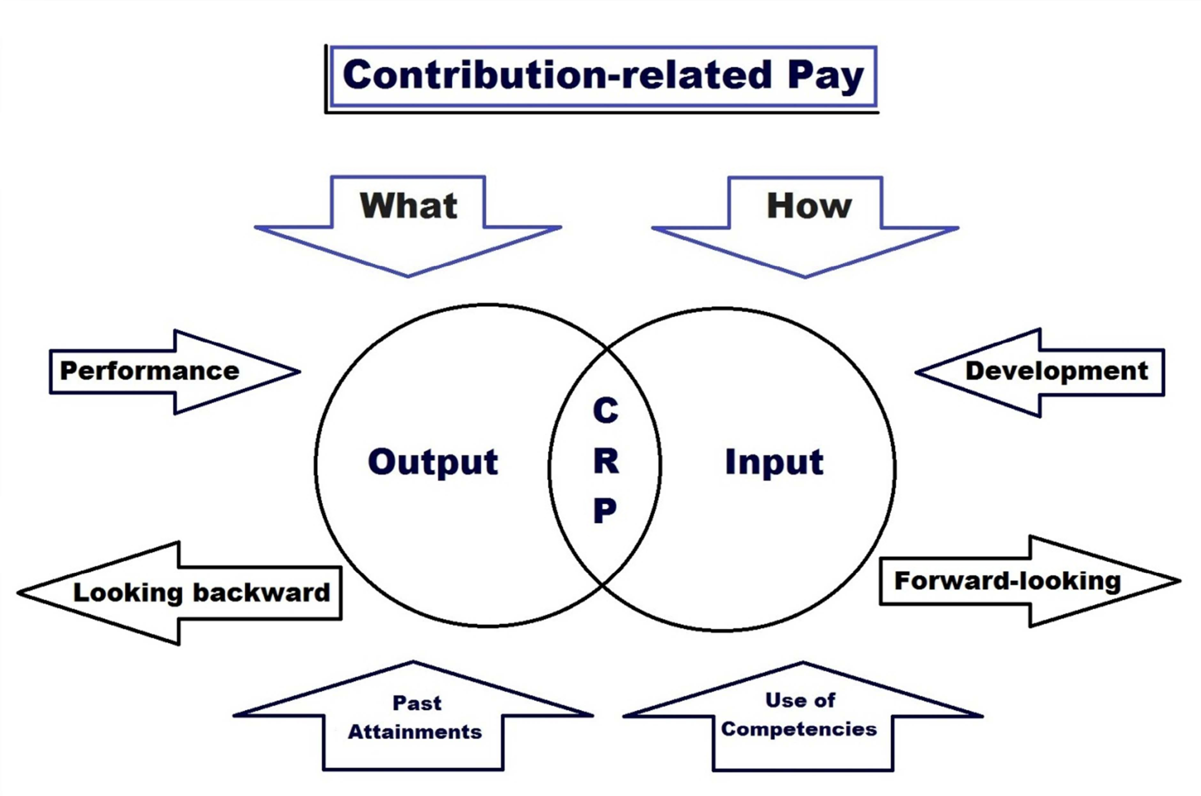


Table 41 – Contribution-related pay

Considering the temporal viewpoint, it can be averred that whilst performance is looking backwards, that is, to past achievements, the idea of competency can be more typically considered as forward-looking. In terms of pay decisions it would mean that whether granting consolidated pay increases on the basis of the assessment of the performance dimension would correspond to recognize individuals for the results these have already produced; offering consolidated pay progression for the competency employees have gained and can potentially use, means awarding them for the enhanced level of performance these should be capable of delivering in the future.

Contribution-related pay, therefore, essentially represents a pay approach according to which in order to determine individual pay a combination of individual achievement and increased level of competency are taken into consideration.

Whether the *achievement* dimension is basically associated with the past positive results and sustained performance of an individual, vis-à-vis the objectives agreed with his/her manager, the *competency* dimension is directly linked to the individual increasing capability to yield better results, manage more complex and difficult tasks and assume higher degrees of responsibility over time. Employers deciding to base pay decisions on a contribution-related pay scheme are hence willing and keen to help individuals to reach their full potential and should, consistently with this objective, put in place development plans enabling these to actually pursue their professional growth and development.

The scheme's facet related to individual accomplishments is basically concerned with the *what* an individual has been capable of achieve, whilst the development side of the scheme with the *how* the competence an employee has developed can actually enable this to yield better results and continue to perform at an above-than-average level in the future.

As discussed earlier in this chapter, however, it is at best questionable and in general fairly pointless reward individuals just on the basis of the competencies these gain, whether these competences are not also effectually and properly used in practice. Whereas this reasoning can be more strongly supported in the case the business decision to reward individuals would be made taking into consideration the competency dimension only, the assessment of competency could reveal to be more viable when used in conjunction with performance measurement. Differently from competency-related pay in fact contribution-related pay arrangements in addition to competency also take into consideration performance assessment. This accounts for competency being considered for the purpose of pay decisions in combination with performance assessment and not in isolation. The existence of a link between the two dimensions and more specifically of a cause-effect relationship between the two components can be in this case investigated. Managers can as such better determine whether the sustained level of an individual performance is due to his enhanced level of competence or otherwise and assess whether the business has to continue to invest on the individual training.

A correlation between the "what" and the "how" sides of an individual contribution can also be both projected into the future. Managers could agree with individuals more ambitious targets for the incoming year(s), on account of the increased competence these have gained and are expected to gain and use during the same identified period. However, such an approach could be perceived by the individuals concerned as challenging in the extreme. Managers should therefore consider this approach useful to stimulate outstanding performers and discuss it with them as part of their performance management process.

Making decisions about the scheme introduction
In order to be successfully introduced and managed, contribution-related pay schemes need first and foremost to fit organizational culture. Their implementation is hence likely to reveal successful within businesses fostering a high-performance culture and, more in general, in firms whose culture is focused on favouring and encouraging individual growth and development, in addition to performance and meritocracy.

This approach could be actually also used in support of other organizational actions and initiatives aiming at implementing cultural changes within the business; even though it is very unlikely that organizational change might be successfully pursued by means of varying the company reward system only.

The effectiveness and efficacy of this type of schemes also largely depends on the employers' ability to put individuals in the position to actually develop by offering them practical and realistic opportunities to genuinely expand their capabilities.

Considering the characteristic of this approach, the main reasons for its introduction can be represented in practice by employers needing to encourage high level of performance within the business and wanting to offer employees additional form of pay progression within a salary range, whilst averting unjustified grade advancements. With particular reference to the latter case, this approach can reveal to be particularly effective when used in combination with broad-banded pay structures in that it can enable managers to recognize and reward the individual increased level of competency gained within the relevant grade.

Moreover, pay decisions made on the basis of both individual performance and competency are likely to be truly seen and perceived by employees as more objective and unaffected by managers' bias.

Competency-related pay programmes can also be introduced by employers to favour behavioural changes within the business. These schemes can effectively help employers to change individual current behaviour whilst fostering the type of comportment they desire.

As averred by Neathey and Reilly (2003), these plans can actually enable employers to attain a series of significant objectives associated with different aspects of an organization activities and aims:

- ✓ *Favour business strategy achievement*: by means of the competitive advantage gained by the firm thanks to its human capital enhanced level of performance;
- ✓ *Support individual development*: providing individuals with real opportunities for growth and extend their competence;
- ✓ *Put in place a more appropriate and suitable reward scheme*: in that contribution-related pay represents a valid option to performance-related pay, which in some organizational contexts may be objectively difficult to introduce and implement;
- ✓ *Support cultural changes*: being able these schemes to influence individual behaviour.

Contribution-related pay mechanism

As discussed earlier, contribution-related pay schemes are two-dimensional schemes based on the one hand on the assessment of the performance or outcome produced by individuals and on the other hand on the level of competence these have developed. Competence which is regarded as important by the employer in that considered at the basis of an individual future enhanced level of performance.

Since under these schemes pay decisions made by managers will be based on the assessment of both employee output and competency, the first stage of the process is to identify and agree with employees the objectives relating to both of these aspects.

At the agreed time, managers should evaluate whether the pre-set objectives, once again both at input and output levels, have been attained by employees and make their decisions about individual pay according to the degree the identified targets have been met.

Drawbacks and possible pitfalls

These types of programmes are rather complex and demanding and as such quite difficult to operate and execute in practice.

The first issue employers have to address at the outset is associated with measurement. Inasmuch as measuring performance is one of the trickiest aspects managers have to deal with, measuring competency may reveal an even harder feat to achieve.

Before introducing a contribution-related pay scheme, employers should therefore ensure that a competency framework, hopefully a well experimented one, is already in place. Differently, the first step of the process would just be represented by the development and introduction of a new one. Determining the criteria to measure, evaluate and assess as objectively as possible competency is then paramount, as well as is establishing a clear, understandable and unbiased link between competency assessment and pay.

An additional aspect employers need to manage is associated with training. When introducing contribution-related pay schemes, training is both important for senior managers and line managers who need to gain an in-depth knowledge and understanding of the mechanism of the scheme, insofar as being able to properly and effectively explain it in details at least to their direct reports.

Since under these schemes development and growth are strictly associated with pay increases, the introduction of such schemes can cause a sensible rise of the training demand from employees. Organization need to be ready to eventually face the burst of training demand, but should also ensure that this demand is also meeting the offer requirements, that is, that the increased request of training from employees is justified, consistent and in line with the business wants and actually useful and pertinent to enable individuals to meet the objectives agreed with their managers. Employers need therefore to be prepared to this likely occurrence. Whether the additional resources necessary to provide the required training should not be timely planned and made available by the employer, this could give raise to relevant drawbacks, namely disappointed employees and employers under pressure to suddenly and quickly find the necessary resources (Neathey and Reilly, 2003).

There are indeed other two factors, both related to managers behaviour, which could seriously jeopardize the successful implementation of a competency-related pay scheme: one is associated with the rigour and objectivity used by managers when assessing individual performance and competency levels, the other is linked to managers showing bias in favour of some employees for the consequent risks of discrimination claims this can cause, irrespective of their grounds: gender, ethnicity, religion, sexual preferences, trade unions membership, etc. (Neathey and Reilly, 2003). If on the one hand it is possible that when assessing individual performance managers may become less exigent and more indulgent over time, it is also possible that individual assessment might be carried out on different grounds rather than the reasons strictly linked to individual performance and competency. Employers and reward managers should be vigilant as regards this aspect, not least because it could also give rise to legal disputes. Employers should therefore seriously consider establishing an independent committee, formed by senior managers and possibly external consultants, charged of supervising and approving the managers and line-managers pay decisions.

Approaches to pay decisions

Since these schemes are based on the assessment of both performance and competency, employers, with the help of reward specialists or external consultants, need to decide from the outset how to link performance and competence with pay. More in particular, employers should determine and identify the type of direct linkage they want to establish between base and variable pay on the one hand and competency and performance on the other hand.

Employers habitually tend to associate, that is, reward individual development with base pay increases, whereas occasional exceptional performance with variable pay. The rationale behind this approach is that individuals having expanded and developed their competency have permanently and firmly gained the qualities enabling them to steady perform better in the future, circumstance which can be reflected in their base pay; whereas the fact an employee has produced outstanding results during a given year is not per se a guarantee that this performance will be repeated in the future, which accounts for employers preferring in this case awarding individuals by means of variable rewards non-consolidated into base pay.

As suggested by Armstrong (2010) – who, with Duncan Brown, introduced in Europe the concept of contribution-related pay back in 1999 –, under this scheme, employers can base their pay decisions according to six different methods.

Some of these approaches directly link both competency development and enhanced performance to base pay increases – 2:1 methods, whereas others link, in different ways and by means of a different mechanism, performance and competency up with both base and variable pay – 2:2 methods.

More in particular, according to the "matrix" and "threshold payments" approaches competency and performance are both used to make decisions about base pay, whereas in keeping with the underpinning tenets typical of the "separate consolidated increases and bonuses", "consolidated increases based on competency up to a reference point and then cash payments for outstanding performance", "reward as a combination of consolidated base pay increase and bonus" and "holistic assessment" methods, individual development and superior performance contributes to a combination of consolidated base pay increase and cash bonus payment.

None of these schemes takes into consideration the possibility to exclusively link development and performance to variable pay in that this is a more typical feature of performance-related pay programmes. The circumstance that this approach also considers the competency component accounts for pay decisions having to exert in any case an impact on base pay. Whereas it is possible that pay decisions will be all reflected in the fixed component of rewards or in a combination of the fixed and variable components of reward, it is sorely unlikely that under this scheme pay decisions may have an impact on the variable component of reward only.

2 to 1 methods

Matrix

Under this approach, pay decisions are made on the basis of a matrix where the determination of the rate of base pay increase for each individual will be attained criss-crossing individual performance ratings and competency classifications.

Performance Rating	Competency classification		
	Developing Does not meet the required competency standard yet	**Fully competent** Meets the required competency standards	**Highly competent** Exceed the standard competency requirements
Outstanding	-----	8%	10%
Very effective	-----	6%	7%
Effective	-----	4%	5%
Developing	3%	-----	-----
Ineligible	-----	-----	-----
	Percentage of pay increase		

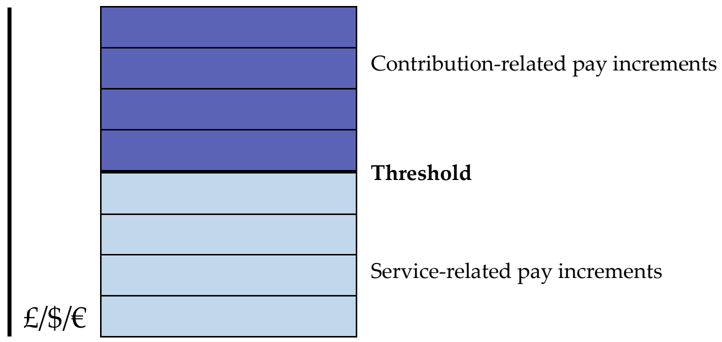
Contribution-related pay Matrix - Adapted from: Michael Armstrong, (2010).

Threshold payments

This approach is characterized by the identification within a pay band or spine of a level or threshold of pay above which pay increases have to be justified on the grounds of pre-identified levels of performance and competence.

Whether within a pay band in order to avert pay drifts, these assessments should be carried out in any case, this approach could reveal to be more valuable and effective within pay spines where pay increases below the pre-set threshold level are granted on the basis of length of service, whilst pay increases above the threshold level are offered only against the assessment of individual performance and competency standards. Under this scheme, pay increases are offered to individuals only whether the assessment of their performance and competency are considered satisfactory and most of all meeting the pre-identified requirements.

Having recourse to this approach can reveal to be particularly effective when pay grades are characterized by large pay spans, enabling as such managers to more accurately control their direct reports pay progression (Armstrong, 2010).



Spine threshold in a contribution-related pay scheme
(Source: Armstrong, 2010)

Being based on the assessment of individual contribution, that is, a combination of competence and performance, this method to base pay determination should help employers to let feel individuals that the pay scheme executed within the business is fair. Notwithstanding, the scheme cannot be by any means considered as flawless in that performance and competency will be in any case the object of the firm's management evaluation and assessment. This could contribute to jeopardize the overall success of the scheme. Whether decisions made by managers would be in fact biased this would inevitably lead to pay drifts and to employees vigorously rejecting the scheme.

2 to 2 methods

Separate consolidated increases and bonuses

This can be considered the most traditional approach in terms of linking performance and development to fixed and variable pay. Upon assessment of individual performance and level of competency, whether these are both considered meeting the employer expectations, base pay increases will be offered on the basis of the individual competency assessment, whereas a cash bonus on the basis of the assessment of the individual output.

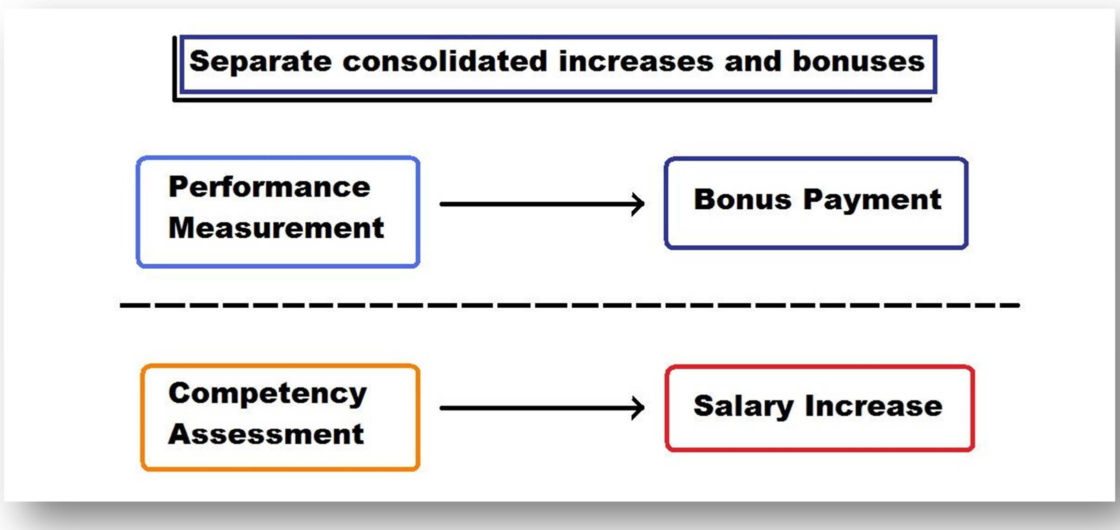


Table 42 – Separate consolidated increases and bonuses

Variable reward schemes

Consolidated increases based on competency up to a reference point and then cash payments for outstanding performance

The main feature of this approach is that it considers pay ranges as divided into two different sections. In the first section of a pay band are included consolidated pay increases, which are associated with the level of competency gained by individuals, whilst in the second section of the band or grade are included the levels of cash bonuses that can be paid to individuals performing well above the required standard (Armstrong, 2010).

The dividing point of the band is represented by the reference point, which coincides with the range of salary offered by the employer to the fully competent employees in each grade. This level of pay should be clearly determined keeping into due consideration the worthiness of the role vis-à-vis the others (internal relativities) on the one hand and the current external market rates on the other hand.

Progression throughout the first part of the pay band is based on the competency gained by an individual, whereas the level of additional cash offered by employers to outstanding performers exclusively on the employee output. Albeit cash bonuses need to be re-earned to be repeated, employers can also decide to consolidate cash bonus payments, or part of them, into base pay whether individual outstanding performance is repeated for a pre-set number of consecutive years.

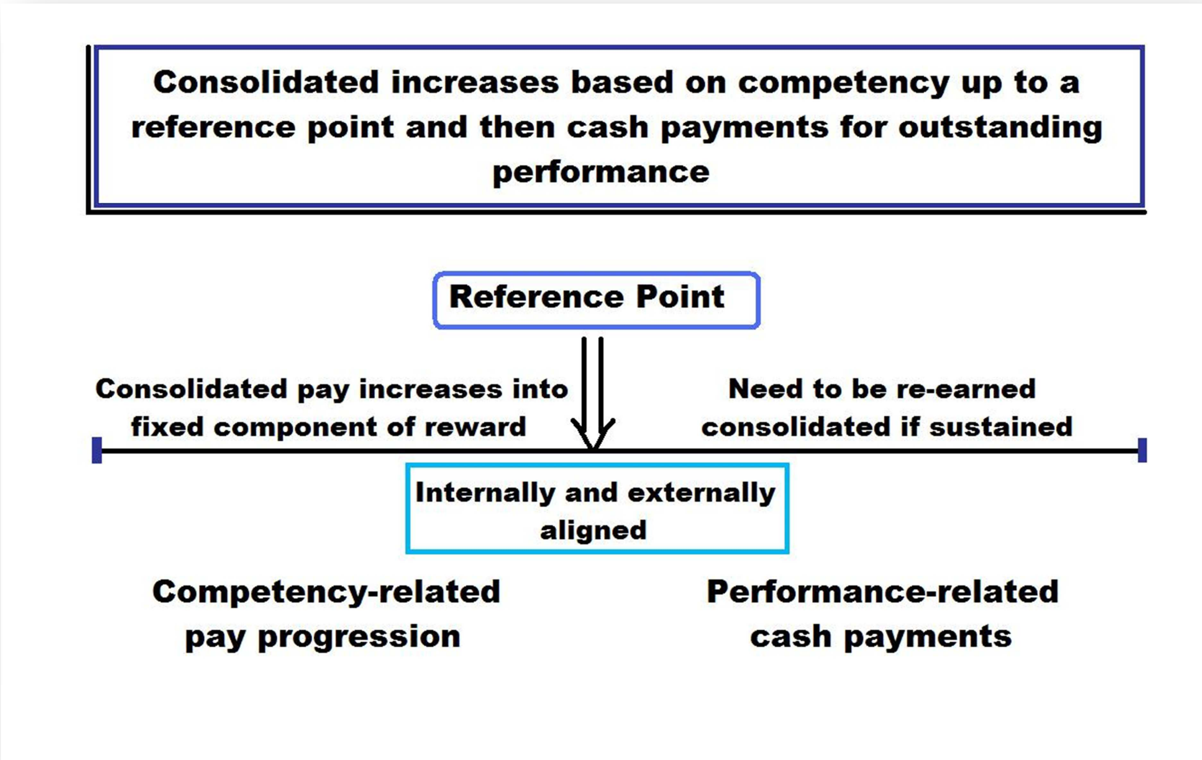


Table 43 – Consolidated increases based on competency up to a reference point and then cash payments for outstanding performance

Variable reward schemes

Reward as a combination of consolidated base pay increase and bonus

This approach can be considered as a more evolved and to some degree complex version of the matrix scheme in that the assessment of performance and competency in this case leads both to the payment of a bonus and to an increase in the level of base pay of the individuals concerned.

Consolidated pay and bonus payment decisions are usually made by means of a matrix similar to that illustrated in the example below.

			Rate of increase				
Position in the pay range	Expert	Base pay	0%	1%	2%	2%	2%
		Bonus	0%	2%	3%	5%	8%
	Fully competent	Base pay	0%	2%	3%	4%	8%
		Bonus	0%	1%	2%	3%	2%
	Developing	Base pay	0%	2%	5%	6%	7%
		Bonus	0%	0%	0%	1%	3%
		Competency	U	S	G	E	O

U = unsatisfactory, S = satisfactory, G = good, E = excellent, O = outstanding

Adapted from Michael Armstrong, (2010).

Employers normally offer a higher rate of consolidated base pay increases and a lower, if any, bonus payment to employees still developing towards the reference point of the grade, in order to enable these to progress faster in the salary range and be paid as their colleagues as shortly as possible. The intent of this mechanism is to clearly retain individuals during their development process.

Expert contribution, in contrast, is mainly rewarded by means of cash bonuses which, whether outstanding performance should be sustained over a pre-identified number of consecutive years, can also be consolidated, habitually in part, into base pay. This choice is justified by the circumstance that employees whose level of expertise is very high are already receiving the highest component of base pay identified for a fully competent individual in the grade, that is, the grade reference point pay.

Holistic assessment

This method of pay determination definitely represents an overarching and at the same time difficult, arguably the most difficult, method to execute.

According to this approach decisions about consolidated pay increases and cash bonus payments are made considering a whole range of factors; amongst these: the direct level of contribution made by each individual vis-à-vis their colleagues, the market rates, the potential expressed by the individual and the need to retain the employee.

But this is not all, so wide-ranging and comprehensive is the extent of this method insofar as including the evaluation of the contribution not only of what an individual brings to his/her team, but also of how this contribution has helped or can help other team members to eventually develop themselves.

The assessment of all of these components has to be carried out against the level of pay received by the team colleagues and considering the external market rates; implying that, whether required, all of the necessary adjustments in the individual pay have to be made.

For thorough and comprehensive this approach appears to be, it is not however immune from problems. All of the assessment activities outlined above need to be carried out by line managers who are in the position to observe employees' behaviour and the way these perform in the different circumstances. This clearly entails that managers need to be well trained to properly assess individual behaviour and activities and that their decisions need to be made without any type of influence, remaining therefore completely unbiased.

The support of the HR function to help managers to objectively and appropriately assess individual performance and competency may reveal to be paramount.

Inasmuch as when introducing and executing reward plans communication is invariably important, the significance of clear communication when executing this type of scheme is critical. In this case communication is important not only to outline the mechanism of the scheme, but also to explain to each employee the reason behind the manager decisions about his/her pay (Armstrong, 2010).

Formulating the scheme policy
In order to avert many of the likely pitfalls associated with the introduction and execution of this scheme, reward professionals should put in writing and make available to staff a policy clearly explaining the way the scheme is operated, administered and implemented by the business management.

After a summation of the mechanism and characteristic of the business grade structure outlining the way grades and pay progression are managed, the policy should clarify employees the underpinning idea on the basis of which the scheme has been essentially built up, the definition of contribution and what the employer exactly means by that. A paragraph clearly stating that the main aim of the scheme is that to recognize and reward sustained excellence, outstanding or additional performance, exceptional personal contribution, evidence of particular success, effectiveness and merit is, therefore, paramount. Providing one or more examples for each entry would definitely be ideal.

In the event the scheme is operated in combination with other reward plans, it would also be appropriate outlining the difference between these and the different aims the scheme is intended at attaining vis-à-vis the others.

Policies need to invariably contain explanation of the circumstance that, according to the scheme mechanism, in order to individual progress towards the highest level of fixed pay within their grade these have to perform at outstanding level for a given number of consecutive years, stressing the fact that this is not however in antithesis with career advancement and promotions. Policies need in fact to clearly explain that contribution-related awards are not provided in lieu of promotions, but that the employer has recourse to this form of rewards to recognize individuals performing beyond the average standards. Career advancement and promotions remains a prerogative of individuals who are prompted to carry out activities and tasks which are typical of the upper grade profile.

A terminology section explaining the meaning of the words used in the policy, whose interpretation may not be obvious or immediate, would definitely help individuals to genuinely understand the mechanism of the scheme and avoid employees misreading the policy.

Whether the term "sustained" for instance is used in the policy, it has to be explained what it is intended by this, namely the indication of the intended number of years or months to which it refers. The likely use of words like performance, results, output, behaviour, etc., need to be explained as well. For the description of the words used in the policy, reward specialists just need to refer to what and how the employer is actually expected individuals will perform.

A brief description of the overall procedure used to assess awards eligibility and of the process used to make decisions should also clearly be included in the policy, as well as the definition of the panel in charge of making the award decisions.

Other important elements which need to be included in the policy concern: the frequency of payments, an outline of the process used to eventually confer consolidated base pay increases and a description of the appeal procedure, whether applicable.

The policy should also contain the details of the organization HR reward manager or specialists knowledgeable about the subject and to whom employees can eventually refer to have further explanations and elucidations.

Conclusions on contribution-related pay

Unquestionably, contribution-related pay represents a very fascinating approach to pay determination in that according to this overarching approach pay decisions are made taking into account both past performance and the future likely enhanced output which should be produced by an individual thanks to his/her capability of expanding and using new competencies.

Whether employers introducing either performance-related pay or competency-related pay or skills-related pay may have one problem, that is, that to assess and measure either performance, competency or skills, employers introducing contribution-related pay are clearly prompted to face at least two big issues, namely measuring and assessing both competency and performance. This is clearly everything but a straightforward feat to attain.

Albeit this should not deter employers to embrace this method, whether considered suitable for their organization, extreme care and caution during the design, development and execution phases of the scheme can definitely be considered as mandatory prerequisites. As suggested by Armstrong (2010), the circumstance individuals are rewarded exactly for the reason these have been recruited, namely to contribute to organizational success, is obviously a tempting and compelling reason for employers wanting to introduce this approach, but risks of an inevitable failure are however very high, especially when employers have opted to have recourse to the holistic approach.

Before introducing the scheme employers should not only ensure that the appropriate tools and methodologies are made available to the business managers in order to effectively and properly assess both performance and competency, but also that managers are properly trained and are truly and genuinely knowledgeable about the mechanism of the scheme.

This approach is definitely very demanding and especially in medium- to big-sized firms its introduction has to be managed with extra care, possibly involving managers and employee representatives in the development of the scheme. The organization of focus groups can also enable employers to gather employee suggestions and perceptions on the one hand and offer managers the opportunity to explain employees the intended mechanism of the new scheme on the other hand.

Employers wanting to embrace this approach should never be hurried into its implementation and should always dedicate and allow the necessary time to effectively and properly design and execute it (Armstrong, 2010).

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Section XIII
Making the case for and against variable pay

The impact of financial rewards and benefits on motivation, engagement and commitment

The supposed existence of a direct cause-effect relationship between reward and employee motivation definitely represents one of the most, arguably the most, passionately ever debated subjects amongst HR practitioners and academics as well. Indeed, this is also one of the most divisive HR-related topics upon which a certain cleavage still dominates.

The reflections on the possible linkages existing between performance-related pay and motivation, as discussed in Section XII, could be broadly extended to rewards and benefits in general. In this paragraph, however, a further attempt to investigate the issue will be made with specific reference to the meaning associated with the concepts of motivation, engagement and commitment.

Consultancy firms and researchers use to regularly conduct surveys and studies in order to better investigate this subject so that a considerable amount of data are regularly and frequently made available to employers. All too often, however, these studies produce inconsistent and contrasting results. Findings of the CIPD investigation carried out in 2011 (CIPD, 2011), for instance, revealed that 54 per cent of respondents wanted to change their job in order to receive a better reward package, whereas 42 per cent of the panellists would have changed their job in order to increase their job satisfaction. These data actually overturn the results produced by the investigation carried out exactly one year earlier, when job satisfaction emerged as the first reason for individuals desiring to change their job. Whilst the investigation carried out in 2010 had revealed that the main reason for individuals wanting to change their job was directly linked to intangible-reward-related reasons, the same survey carried out one year later showed essentially a change of trend characterized by the increased importance gained by tangible rewards. The new trend in terms of employee preference essentially seemed hence to mark a shift and somewhat of a U-turn from intangible to tangible reward (Longo, 2011).

As suggested by Hemsley (2011), however, albeit these findings might show individuals willingness to sacrifice job satisfaction for better pay and benefits, this does not necessarily implies that employers can exclusively keep their staff "engaged with benefits". As pointed out by the CIPD (2011), these results eventually provide evidence of the tendency's shift from increasing job satisfaction to increasing salary and benefits as key motivator for people wanting to change their job (CIPD, 2011), which has, at worst, nothing and, at best, little to do with motivation in general.

Analysing the results produced by the different investigations, it can only be concluded that employee preferences are definitely influenced by their wants and different personal changing circumstances. These are in turn influenced by the external conditions; in fact, individuals differently prioritize their needs depending on the fact that the relevant exogenous environment is experiencing a booming or a recession period.

The findings of the 2011 CIPD's investigation are absolutely coherent and consistent with the results of a similar investigation carried out by the National Training Awards (2010) according to which 76 per cent of respondents admitted that when looking for a new job what they care for the most is the financial reward package on offer. This investigation, however, also revealed that just a less significant 32 per cent of the panellists maintained to be motivated by money to perform well in their job. Differently from many other investigations, the findings of this study also pointed out and effectively highlighted the difference existing between the two separate facets of motivation: motivation to change job or leave the current employer and motivation in the workplace.

In order to consistently and properly deal with the subject it is crucially important avoiding any possible mix-up. To this extent a clear definition of the concepts associated with the terms engagement, motivation and commitment, whose meaning is all too often the object of overlap, would definitely reveal to be useful.

Motivation

Over the years, practitioners, psychologists and academics have formulated a large number of definitions of motivation. All of these formulations broadly converge on considering motivation as an inward feeling or state eliciting a determined, specific and unrelenting human behaviour aimed at attaining a precise purpose. As suggested by Armstrong (2009), motivation can hence be defined as an objective-directed behaviour at the basis of which there is a reason, that is to say, a motive for an individual doing something (which actually corresponds with the definition of "motive" provided by both the Oxford and Cambridge dictionaries).

Individuals can either motivate themselves autonomously, setting their intended objectives and identifying the more suitable way to achieve them, or try to elicit motivation on other people. In the former case, the degree and practical effects of motivation are clearly stronger. The motive for behaving in a determined way and the final objectives to be pursued are in fact identified and decided by the same individual. Generating motivation on other individuals is in contrast much harder; whether an individual would not perceive the reasons and the final objective as genuinely and truly important for him/herself, it is fairly unlikely that this will actually strive for their attainment.

Individuals are habitually willing to struggle in order to attain their pre-identified objectives, that is, are motivated, only whether these objectives are considered and perceived as significant and worthwhile. This is indeed the type of situation that can typically practically encourage discretionary behaviour.

Applying the concept of motivation to the workplace would lead to define a motivated employee as a person who has developed a keen interest in the attainment of the organizational objectives, insofar as considering these as his/her own personal objectives. It is glaring, therefore, that in order this to happen employees need to clearly know and understand organizational objectives. Individuals behave, act and perform in a determined way because they consider the attainment of those objectives rewarding for themselves and satisfying their personal wants, which are thus associated with those of the employer. In Robbins' words, employee motivation can be defined as "the willingness to exert high levels of efforts toward organizational goals, conditioned by the effort's ability to satisfy some individual needs" (Robbins, 1993).

Engagement

Engagement is growingly considered as a crucial ingredient of the recipe for organizational success, insofar as a many practitioners and academics identify a clear direct cause-effect relationship between engagement and performance. Vance (2006), for instance, avers that engaged employees "deliver excellent on-the-job performance" and are loyal to their employers.

Indeed, also the term engagement, and more specifically the expression employee engagement, has been defined in many ways. Analysing the different formulations can be identified two main categories of definitions: one linking engagement to the organization, the other to the job.

When employee engagement is intended with regards to the organization, it practically refers to the individuals' sense of belonging. A good example of engagement definition intended in this sense is provided by the US Conference Board (2006), which considers engagement as a "heightened connection" that individuals feel for their employer, Similarly, Robinson et al (2004) suggest that an engaged individual is someone who believes and identifies with his/her organization.

More frequently, however, employee engagement is connected with the job rather than with the organization. Individuals in fact may be engaged with their job but not committed to their organization, whereas committed people are not necessarily engaged (Armstrong, 2009).

Most of the notions developed with reference to the idea of engagement are, therefore, referring to the job and associated with concepts like performance, discretionary behaviour and individuals going the extra mile. Murlis and Watson (2001) even referred to engagement in the more explicit sense of "engaged performance", where organizational success is achieved by means of employee enthusiasm, stimulation and positive behaviour. Likewise, Towers Watson (Towers Perrin, 2007) suggests that staff engagement emerges and depends on the extent individuals "put discretionary effort in their work, beyond the minimum to get the job done."

Engagement seen from the employer viewpoint, still mainly considered as a job-related feature, can be essentially defined as the bundle of activities and initiatives put in place by this in order to encourage individuals positive approach to their job and induce employees discretionary behaviour and extra efforts in order to these ultimately go the extra mile. Since for the successful achievement of business strategy employers ascribe a considerable importance to employee behaviour, the activities these put in place to induce employee engagement should also strive to foster that desired behaviour, ultimately helping the firm to achieve competitive advantage (Longo, 2011).

To a considerable degree, engagement is also very much concerned with knowledge and communication. Individuals are likely to feel and reveal to genuinely be engaged whether these clearly know the business aims and objectives and how to attain these.

Commitment

The concept of commitment is associated with an individual's firm intention and willingness to devote time and energy to the pursuance of a specific aim or firm decision to do something.

This concept could be extensively interpreted in the sense that an individual wants to pursue an objective insofar as deciding to relentlessly persist with it according to the pre-identified course of action and being loath to change it (Vance, 2006).

Commitment can clearly manifest in a whole range of ways and situations regarding both an individual professional and personal life. This feeling, which may be identified and became visible because of an individual behaviour, can be elicited both by emotional and rational reasons. As stressed by Vance (2006), individuals can act in a determined way because of the feelings and emotions stirred by some circumstances or because people may intentionally and deliberately decide to behave in that way. In both cases individuals will devote efforts and time to the attainment of any given aim.

Many practitioners associate with organizational commitment better business results and sustained individual and thus organizational performance. Schein (1970), for instance, avers that organizational commitment can be considered as a performance and effectiveness key indicator. The practical effects of commitment over performance, however, are not widely acknowledged and recognized. Different opinions and points of view on the alleged existence of a link between commitment and performance have been actually expressed over time. A number of Authors do recognise this link and the contribution of commitment to performance (Walton, 1985; Iles, Mabey and Robertson, 1990; Guest, 1998; Marchington and Zagelmeyer, 2005), whereas others (Meyer and

Allen, 1997) highlight the lack of empirical evidence in support of this supposed existing direct cause-effect relationship.

Some Authors also attribute to commitment far-sighted qualities. Dordevic (2004), for instance, considers commitment as a revealing indicator, insofar as enabling employers to predict individual behaviour, performance and absenteeism predisposition. Coopey and Hartley (1991) on the other hand, who seem to mostly associate commitment with obedience and loyalty in the extreme, insofar as individuals becoming complaisant, uninvolved and submissive, even suggest that commitment, reducing flexibility and inhibiting creative problem solving, could jeopardise organizational performance.

Torrington et al (2008) make a distinction between the concept of commitment intended as identification with the business, which is referred to as "attitudinal commitment", and commitment intended as a type of conduct most markedly associated with staying with an organization and continue to pursue its aims, which is more commonly referred to as "behavioural commitment."

As discussed above, the definitions of commitment formulated by some Authors are actually fairly akin to the definitions of engagement provided by others. In order to better characterize the idea of commitment and associate with it a distinctive meaning, it could be more strictly linked to the concept of individual loyalty to employers. As suggested by Armstrong (2009), the concept of employee commitment, which should be moulded during the development of a HRM philosophy, should be more appropriately associated with the concept of organizational citizenship. As such, commitment is what makes an individual proud of working for a particular organization and developing a strong sense of belonging. This is also the conclusion reached by Porter et al (1974), who suggest that commitment relates to the degree of an individual identification with, and involvement in, a particular business.

The effects of rewards and benefits

In the light of the definitions provided above, it can be finally made the attempt to find out whether the rewards and benefits included in employee reward packages can actually help employers to keep their staff engaged, motivated and committed.

Reward and benefits and motivation

The findings of the CIPD (2011) and National Training Award (2010) investigations mentioned above can help to deal with the conundrum. Both studies revealed that individuals place great emphasis on financial reward when looking for a new job so that, in the event an individual should receive several job offers whose content is similar, it is very likely that this will opt for the one associated with the largest reward package. Financial reward would clearly be in this case the "motive" for an individual accepting a new job offer, or rather, the motive to decide amongst a number of job offers which one to accept.

Making the case for and against variable pay

It clearly emerges by extension that reward can help employers to attract individuals, but can actually reward be considered as an effective means in order to motivate employees in the workplace?

Considering the definition of motivation, it clearly appears that individuals behave and act in a particular way to achieve a result, that is, an objective they consider valuable. In this case discretionary behaviour does not represent an end of itself, but a means to a well pre-identified end: reward. Considered as such tangible rewards and benefits can be regarded as motivators, individuals could be likely to make extra efforts and perform better in order to achieve the intended result: a bonus, a valued benefit, a salary increase and so forth (Longo, 2011). Indeed, Herzberg (1968) did not exclude the existence of a direct positive linkage between cash awards and motivation whether financial rewards are provided to individuals as a means of recognition for their attainments rather than as "across-the-board wage increases."

On the basis of these elements, financial rewards can be considered as effective motivators in the short run, more specifically for the period of time necessary to an individual to attain his/her immediate end. On the other hand it is unlikely that employers could be able to motivate employees in the mid- and long-term just relying on financial rewards. In this case, they should constantly put in front of their staff carrot and stick, which may not necessarily be a big issue of its own, but for the fact that this method would very shortly reveal to be extremely expensive and as such unsustainable over time (Longo, 2011).

Financial rewards can potentially enable businesses to practically achieve motivating results, but only in the short run. This method can be hence effectually used for specific circumstances and for the attainment of specific aims; for instance, in those cases in which employers have to confirm particularly sensitive and delicate assignments to their best employees. Some of them could also feel motivated by the fact that they have been recognised by the employer, amongst all of the other employees, as the most suitable individuals to carry out the assignment and as capable to produce the expected and desired results. This is indeed the case of intangible reward, but some other individuals could mostly feel motivated by tangible rewards. In general, it is very likely that a mix of intangible and tangible rewards would produce the best results.

Absolutely minimising the effects and importance of financial reward, however, would be a massive blunder, and not only during periods characterised by a predominantly grim economic exogenous context. Financial rewards are never likely to be completely irrelevant; as suggested by Herzberg's two-factor theory (1957), albeit financial reward is not a motivator of its own, an inadequate and insufficient financial reward package could actually produce remarkable counterproductive effects upon individuals, whose consequences can potentially be considerably detrimental for the business.

Reward and benefits and engagement

It could be argued that considering engagement according to the US Conference Board's and the British IES' (Robinson et al, 2004) definitions, benefits or strategic benefits (how referred to by Hemsley, 2011) can turn to be useful to retain individuals or to keep them committed to an organization, safe in the knowledge that committed individuals are not necessarily engaged individuals. This approach can however be considered questionable in that whether an individual has decided to leave the current employer and has started to look for another job, it can be hardly believed that such a decision may have totally been caused by the weakness of the reward package the individual receives. The only exception to this possibility being represented by the fact that the organization is offering overall financial reward packages completely unaligned with the local labour market rates. In practice, however, such decisions are habitually made on completely different grounds (Longo, 2011).

Considering engagement as linked to the job, it can be concluded that reward is mainly inwardly generated by individuals. As far as engagement is directly connected and concerned with the job, it clearly relates to the intangible aspect of reward. In this case discretionary behaviour does not represent a means to an end (which would be reward), but the end itself. In other words, discretionary efforts and going the extra mile are not directed towards the attainment of a tangible reward. Reward is in this case represented by the satisfaction provided to individuals by the job performed and by the results delivered by their actions. More than a matter of reward it actually is a matter of self-fulfilment. Individuals feel satisfied by their actions and by the results delivered by their activities (Longo, 2011). As such, engagement can be exerted by means of job design, job enrichment, employee involvement and employee empowerment practices, delegating decision making and, in general, by means of all of those activities actually favouring individual personal and professional growth. Providing individuals with learning, training and development opportunities should clearly represent a steady part of the process.

Whether individuals in order to perform well want a job giving them a feeling of usefulness, autonomy, involvement and growth, it is very unlikely that they will be inspired to perform well just because of the financial reward package they receive. After a while, for generous the reward package may be, it will be considered by employees as something absolutely normal, taken as axiomatic and deserved irrespective of their level of performance and what they actually deliver (Longo, 2011).

Reward and benefits and commitment

As discussed earlier in this paragraph, it can be actually accepted the idea that benefits and reward can help employers to retain staff. Taking for granted that individuals when looking for a new job only care about financial reward, it would really make no sense leaving the current employer for a new one offering a reward package similar to that they already receive. In such a situation individuals would very likely opt to better stay with the current employer.

Moreover, employees already know how things go in their current organization, which could sometimes be just the reason for wanting to leave, but they would possibly know little or nothing about how things would go once having eventually joined a new organization; things might also go worse. This accounts for actually being in general unlikely that an individual might leave an organization for joining a different one just on financial-related grounds.

It could not be therefore excluded a priori that benefits packages could actually reveal to be useful to retain individuals, but it clearly depends on the different circumstances so that the effectiveness of benefits packages as an exclusive means to retain staff remains at large questionable (Longo, 2011). Whether, for example, individuals should find it hard continuing to stay with the current company by reason of the organizational climate or should feel the relationship with their manager as being irreversibly prejudiced, there would clearly be no benefit package which could mend such a deep wound. Financial rewards can help, but cannot repair the irreparable.

Vice versa, as confirmed by the CIPD and the National Training Awards investigations, benefits packages can definitely reveal to be very useful for businesses wanting to attract new talents. Albeit it must be recognized that the circumstance a reward package revealing to be useful to attract individuals from the exogenous context could produce limited effects in order to retain existing employees could apparently appear to be rather eerie. This actually depends on all the other non-reward-related different circumstances.

Since committed individuals are not necessarily engaged or motivated, employers wanting to induce staff commitment should take extra care with the determination of the budget they are eventually forecasting to devote to the achievement of this particular aim. It could produce no financial return at all.

Individual commitment is normally associated with the sense of belonging and organizational citizenship. Committed employees are likely to be proud to work for a particular organization; employers should by extension try to achieve this objective directing their efforts toward the design and development of employer branding strategies, which will surely reveal to also be sorely effective in order to attract individuals from the external environment.

CSR initiatives, flexible working practices and the introduction of similar initiatives can also help employers to achieve this objective. An individual could be definitely proud of working for an organization which also pay a good deal of attention to the environment, supports charities and endorses eco-friendly activities.

Amongst the most important elements and characteristics at the basis of employee commitment have to be definitely included consistency and integrity. Individuals are very sensitive to what employers communicate and endorse in the form of rhetoric and what they deliver in practice. This is actually the aspect to which individuals are paying the more and more attention; employers need to definitely avert to talk the talk, but not to walk the walk.

Being proud to be part of an organization for an individual very much depends on these factors and believing that an employee could feel proud to work for a particular employer just for the financial reward packages it offers would represent a massive blunder.

Individual motivation, engagement and commitment cannot be bought; at least, not for a long period of time.

The influence of the external environment

The reason for job-seekers preference shifting from "increase job satisfaction" to "increase salary/benefits", as showed by the findings of the CIPD investigation (CIPD, 2011), has very likely been remarkably affected by the deterioration of employees' standard of living. In fact, the same study suggests that only 7 per cent of panellists reported that their standard of living had actually improved, whereas 56 per cent said that it remained the same and 36 per cent reported a worsening situation.

The adverse conditions characterizing the financial external context can clearly produce a negative impact on the mood of individuals and sometimes, even though inadvertently, these could bring their personal problems and feelings with them to their workplace. This, of course, could in turn affect their level of performance; in such circumstances, the employer support could definitely help. Since employees are prone to forget, in the long term, what an employer has done for them and to keep, by contrast, long-term memory of any even tiny accident, such a help should be considered within the array of the initiatives producing short term effects (Longo, 2011). It is however likely that the support received by individuals in periods when these are experiencing particularly painful hardships will be remembered for a longer spell, producing as such longer-term benefits. Problems may however arise from the budgeting side, during downturn periods, for instance, it is unlikely that employers could afford extra-budget expenses, but this clearly depends on the circumstances. Notwithstanding, employers should by no means neglect the importance that such forms of support could represent for individuals and should hence think carefully before renouncing to implement them.

Still considering the findings of the CIPD study, it must also be pointed out that despite "increase salary/benefits" has been reported, with 54 per cent of preferences, as the main motivation for individuals wanting to change their job, "increase job satisfaction", with 42 per cent, "opportunities to learn new things", with 30 per cent and "opportunities for promotion", with 24 per cent, altogether definitely represents a remarkable score in favour of intangible and non-financial-related reasons for individuals wanting to change their job (CIPD's survey respondents could answer ticking more than one option). The change at the top of the table did essentially represent the tip of the iceberg and did not really represent the overall result of the investigation, which still recognised a good deal of importance to the intangible side of reward.

Motivated, engaged and committed employees would clearly perform much better than people who are only motivated or only engaged or only committed. The combination of the three factors would actually produce an ideal synergetic, multiplicative effect typical of the "bundle" approach, which is indeed very tricky to achieve in practice.

Benefits and salary, as part of a total reward model where the different components of financial and non-financial reward play a coordinate role to implement an organization's reward philosophy and strategy, can clearly reveal to be important contributors to employees' engagement, commitment and motivation. To motivate, engage and commit staff it is however necessary offering individuals a combination of learning and development opportunities, an appropriate working environment and coherent pay and benefits packages, in other words a consistent, well-developed, well-designed and well-executed total reward programme (Longo, 2011).

Advantages and disadvantages of variable pay and incentives

Whereas base pay is essentially provided by employers to individuals regardless of their real contribution and performance, variable pay, which can be either granted to individuals or teams for the results these have directly produced or according to the overall organizational performance, linking financial rewards to those factors which are valued the most by employers, can practically enable these to encourage the desired behaviour and performance level within the business.

Nowadays, performance-related, competency-related, contribution-related and skill-related pay represent the contingent pay methods most extensively used by private-sector employers; whereas service-related pay, which being linked to the length of service can be extensively considered as a form of contingent pay too in that contingent upon service, is still mainly used in some public and voluntary sector organizations. Bonus plans on the other hand are rather widely used by both private and public sector organizations. Indeed, whether recently many public-sector employers have recourse to variable pay programmes in order to link pay to individual performance and contribution, it is much less likely that private-sector employers may use service-related pay schemes (Longo, 2011).

When a variable pay scheme is used, pay is essentially formed by two components: a fixed element that is base pay and an additional variable component which varies from individual to individual. Whereas base pay is usually associated with the relevant grade of the organization pay structure, the variable element is differently determined according to the individual level of expertise, contribution and performance. This component can also be provided to individuals in the form of one or more lump sums usually called cash bonuses.

Contingent pay can also be consolidated into base pay becoming thus an ordinary component of pay and losing its typical feature of "pay at risk" or pay which needs to be re-earned. By contrast, this feature is clearly maintained when the variable component of pay is provided in the form of lump sums. In this case, whether an individual performance should deteriorate in the following year(s), the cash addition will be removed causing the employee overall pay to decrease accordingly (Longo, 2011). It is important to duly consider that, used in this way, variable pay would become less prone to be considered as a fixed component of a reward package before a court. The circumstance an individual may or may not receive this component of financial reward from one year to the other and that in any case it would be subject to a variation in its amount determination, will contribute to prove that an individual cannot necessarily create expectations of receiving this element of pay.

Making the case for and against variable pay

As a rule of thumb, variable pay should be consolidated into base pay only to recognize individual sustained, outstanding performance over a period of at least two, three successive years. Also in this case, however, a portion of the individuals' total pay should better remain connected with their performance; this will certainly reveal to be useful for employers and gratifying for the individuals concerned.

Employers will be able to keep alive individual interest in performance and contribution, whereas individuals would continue to maintain a clear line of sight between their financial reward and their level of performance and contribution. The portion of variable pay could be thus considered somewhat of a post-it or a memo attached to the best performers salary slip reminding them that their employers still count on their support and that sustained performance and outstanding contribution are still features these value and are expected from them. At the end of each calendar year it essentially changes nothing in the individuals overall income, but in this way employees would constantly have evidence that their performance and contribution, being recognized with a cash addition, are still appreciated and valued by their employer.

Even putting aside the motivating role potentially played by variable pay, it is likely that individuals at large may behave differently according to the circumstance that a component of their salary is variable or otherwise. The fact that the sum which has been received for a two- or three-year period time as a variable component of pay would be subsequently consolidated into fixed pay, could arguably represent a cause for individual zeal to decay. Unless some other reasons would exert a certain influence over the individuals' commitment, after a certain period of time these may feel in fact less inspired to go the extra mile (Longo, 2011).

Findings of a survey carried out amongst more than 500 employers in the US by Aon Hewitt (Aon Hewitt, 2010), revealed that, downturn notwithstanding, employers had invested in variable pay during the previous three years as they have never done before. According to the investigation results, it is very likely that employers will continue to resort to reward approaches based on variable pay also in the future, rewarding staff in order to encourage strong individual and business performance (Abosch in Aon Hewitt, 2010). The main objective of such a choice is clearly that to let employees know that organizations are willing to provide extra cash to their employees, but that these need to effectively contribute to the organization achievement of outstanding results in order to deserve it.

According to Brown (2011), there are basically two main reasons for variability being considered so important by employers, especially when the economic landscape is grim. One of them is essentially represented by the flexibility it allows businesses in terms of reward policies. Reducing the base pay component of reward, employers will clearly be in the position to better control the personnel cost when the organizational performance drops without any need to promptly resort to job cuts; whereas employees will be able to cash in on financial gains during prosperity periods.

The second reason for organizations preferring having recourse to variable pay is linked to their concern for retaining and motivating high fliers, especially when experiencing financial hardships. By means of variable pay employers can redirect more of their pay and bonus budget in order to ensure that these individuals continue to be properly remunerated.

Considering variable pay and incentives as effective long-term motivators can be deemed, to put it mildly, debatable. Although it cannot be excluded that variable pay may have some positive motivating effects in the short period, it is nowadays widely recognised that extrinsic motivators cannot produce valuable, long-lasting effects to this extent. It is indeed just for this reason that organizations are shifting their approach towards the total reward concept which, by means of the intrinsic, non-financial motivator components, is very likely to produce stronger, long-term motivating effects.

As discussed earlier, competency-related, skills-related and, albeit in part, contribution-related pay schemes essentially represent forms of contingent reward based on the likely, expected above-the-average future individual performance. In this sense reward can be considered prospective-based and to some extent gambling-based. Even though an employer has knowledge that an employee has reached an appreciable level of competence and gained a wide array of skills in actual fact there is no guarantee that this will undoubtedly perform well in the future. Albeit the money the employer invests (or bets) on an individual is partly justified by the level of competence s/he has reached, it is impossible to say today how this will actually perform in determined situations in the future, especially whether the employer has never had the opportunity to practically test and assess the individual behaviour in those circumstances or in a particular role. An individual may, for example, practically prove to be technically competent in his field, but might reveal not to have the leadership skills required to lead other people. Promising in advance to an individual a pay addition, or to increase the existing one, could result counterproductive and trigger remarkable drawbacks in the event, against all expectations, things should not work as expected; the pay addition in the end will not be paid and this will clearly have detrimental effects on the employee motivation (Longo, 2011).

Furthermore, individuals tend to forget the rewards they have received at earlier stages and will in any case be expected to receive something more soon after having achieved a good result. This is another reason for the perspective approach to financial reward being likely to fail producing the desired results even in the short term.

Retrospective-reward is actually the most widely used method to provide staff financial recognition. It is based on real situations: You have produced this outcome, hence we pay you this sum of money.

Considering the benefits of the short-term momentum that financial rewards can provide, a mix of prospective- and retrospective-reward could turn to be particularly appropriate and effective when appointing individuals for some particularly complex projects or assignments, especially when the project requires some extra efforts during the preimplementation phase. Providing individuals a sum of money before the beginning of the project or assignment and one immediately after the successful conclusion of it is likely to be particularly appreciated by the individuals concerned.

Organizations whose culture, values and shared beliefs are inspired to productivity, performance and effectual contribution will find this method particularly useful to inspire integrity and effectively and consistently endorse and reinforce organizational values and beliefs.

Supporters of individual contingent pay resort to the supposed link between performance and reward to emphasize its motivating power, adding that contingent pay is preferable to just paying employees "for being there" as it occurs when operating service-related reward systems (Armstrong, 2006).

According to the findings of the e-reward survey of contingent pay (2004), organizations usually resort to contingent pay for a wide range of reasons, namely to:

- ✓ Improve organizational performance,
- ✓ Attract and retain valuable individuals,
- ✓ Motivate staff,
- ✓ Influence behaviour,
- ✓ Support cultural change,
- ✓ Focus individual attention on key results and values,
- ✓ Recognise and reward those levels of performance considered particularly valuable by the organization.

All of these reasons, aiming at fostering performance and contributing to help organizations achieving competitive advantage, can actually be considered arguments to make the case in favour of individual contingent pay.

Amongst the reasons provided to support the introduction of variable pay schemes, many reward professionals also suggest the "sorting effect" which these are likely to produce (Torrington et al, 2008). The sorting effect, differently from the "incentive effect" supposed to impact performance, is believed to enable employers to attract and retain valued individuals from outside the organization. Providing more generous financial reward packages to best performers only should stimulate worst performers to improve their contribution level or push these to leave the business. In the mid-term, this apparently unforced process should by extension enable firms to count on a staff totally formed by good performers and, more in general, by people effectively contributing to the attainment of the organizational objectives.

The idea underpinning this approach, however, should provide employers food for thoughts; whether employees performing well would not be properly financially recognised these may decide to leave the organization (attracted, for instance, by the sorting effect generated by other employers' offers), businesses would thus lose their best performers (Torrington et al, 2008).

Making the case for and against variable pay

If the worst comes to the worst, the introduction of variable pay schemes based on real contribution and performance can produce a type of natural process by means of which organizations can achieve a better labour distribution and allocation amongst their staff. Individuals who are able and willing to perform at higher standard levels will be stimulated to move ahead in higher level jobs where they take growing level of responsibility on and provide superior contribution, whilst being better rewarded. Vice versa, those employees whose level of performance is poor will continue to fill lower profile, low-paid roles. In such circumstances, these employees would clearly feel ill at ease and would very likely decide to leave the organization and opt for alternative jobs. All of that should ultimately lead to improve the final quality of the overall output produced by the organization (Longo, 2011).

Supporters of the expectancy theory are amongst those who consider incentives schemes useful to increase organizational performance and productivity. They believe that inasmuch as individuals are willing to produce more and better whether they are aware that other people value their achievements, these are also expected to receive in turn something they value. This position, nonetheless, can be deemed debatable in that it is based on the assumption that all the individuals invariably and equally value and appreciate extrinsic rewards, whereas, as we have seen earlier, this is not actually necessary true and cannot consequently be taken as axiomatic.

The introduction of incentive pay systems, irrespective of the business peculiarities and characteristics, is not actually widely recognised as useful and as invariably having a positive impact on organizational productivity and performance. According to Sisson and Storey (2000), many organizations have developed incentive schemes just for "ideological reasons" that is to impress stock markets analysts, reinforce the role played by the organization management and to void the role played by trade unions in the salary determination process. Although, they conclude, very often these reasons have turned to be completely ineffective in the long run.

Variable pay, especially when provided in the form of individual incentive schemes, is hence not really immune from criticism. One of the most reasonable doubts cast on the effectiveness of individual contingent pay is certainly represented by the considerably limited impact this approach has on motivation. As averred by Herzberg (1957), financial rewards are able to only produce a partial influence on employee motivation, limited to help avoiding that things could go worse, rather than enabling individuals to go the extra mile or induce discretionary behaviour. Whether managed inappropriately, pay can even act as a de-motivator. However, according to the Author (Herzberg, 1968), money plays a hygiene role when considered as base pay or, more in general, as a fixed component of pay. As discussed in the previous paragraph, nevertheless, Herzberg did not exclude the existence of a direct cause-effect relationship between cash awards and motivation whether financial rewards are provided to individuals as a means of recognition for their achievements, hence in the form of variable pay.

Kohn (1993) suggests that money seldom enable employers to effectively influence their staff behaviour. A different type of criticism to incentives schemes is raised by Thompson

(2000), who stresses the role that employees associate with incentive schemes as a further management control tool used to the detriment of individual autonomy, causing thus resentment and industrial conflicts.

Moreover, since individuals are different the one from the others and differently react to the various initiatives implemented by employers to motivate them, it cannot be taken as axiomatic that everybody will be equally motivated by tangible rewards and let alone by the same kind of reward. This is actually one of the main reasons, arguably the main reason, for total reward approaches being considered of remarkable importance.

Individuals who are just motivated by financial rewards and who are consequently expected to receive money in exchange for their performance will surely react positively to financial incentives. Notwithstanding, complying with these extrinsic staff expectations only risks undermining intrinsic motivation; in other words, individuals motivated just by money could find it unpleasant over time to deal with their usual daily tasks and activities (Armstrong, 2006) and could then be destined, even unconsciously, to underperform. Furthermore, employers supporting this employees' attitude could to some degree contribute to abet them in this behaviour. Whether employees would get used to receive money for everything they do, considering that individuals work in an organization to actually contribute to its production system and ultimately success and already receive a pay for this, the result would be that in order to motivate staff employers should increase incentives very frequently, widening rather than bridging the reward gap with other employees with different attitudes towards money, but equal or even superior performance. In the long run, the risk is that everybody in the organization will develop the same attitude towards financial incentives; this could clearly undermine the stability of the whole organization even in periods dominated by favourable economic conditions, not to mention the catastrophic effects such a practice would generate during downturn or grim financial periods (Longo, 2011).

Incentive plans typically "cause considerable additional costs" (Torrington et al, 2008) or as suggested by Cox (2006) are very likely to generate "costly side-effects."

It is extremely important also considering the likely effects that an incentive scheme can produce according to the different circumstances; as suggested by Torrington et al (2008) "there is a world of difference" between a system rewarding an additional 3 per cent and one rewarding an additional 25 per cent. An investigation carried out in the United States by Bartol and Durham (2000) showed that the minimum level of a bonus or salary increase to elicit positive long-term response has to be set at least between 5 per cent and 7 per cent of the current salary. A similar study carried out in Finland (Piekkola, 2005) revealed that beneficial effects on staff productivity will be attained when incentives exceed 3.6 per cent of base pay. The obvious conclusion of these surveys is that employers' efforts do not produce any effect at all whether individual expectations are not adequately met and that whether insufficient, these efforts could practically represent a pointless waste of resources.

The findings of these investigations could, possibly partially, explain the difficulties faced by the public sector employers in motivating their staff given that they usually recognise incentives between 2 per cent and 3 per cent of base pay (Hendry et al., 2000).

These indications also need to be evaluated in the light of the circumstances; during downturn periods, for example, when employees could consider themselves blessed for keeping their jobs, salary increases could be appreciated differently than these would be during booming periods.

Whether variable rewards can contribute to foster competition and enhance productivity and performance, the drawbacks these may potentially produce could reveal to be particularly detrimental for organizations. Financial incentives may possibly motivate individuals receiving them, but they certainly produce counterproductive, demotivating effects upon those individuals who receive lower amounts of money or, even worse, do not receive any cash addition at all (Armstrong, 2006). Quantitatively the latter are likely to be more numerous than the former so that the negative impact on the overall organizational climate and performance could be particularly remarkable.

In order to properly work, it is also mandatory that contingent pay schemes are based on accurate and reliable methods effectively and consistently enabling organizations to assess and measure performance and staff contribution to the organizational success; methods which not always exist or are effectively designed and operated.

Furthermore, individual contingent pay schemes seriously risk jeopardising the efforts made by modern employers to implement organizational structures and working methods the more and more based on team and group working. Individuals who want to appear particularly brilliant, also to show their employer that they deserve the money they receive, could be tempted to work in isolation or even to be unfair and disloyal with the other team members, to the detriment of the final overall output that the organization is expected to attain by the work produced by the whole team. This is possibly why team-based incentives are seen by some practitioners much more favourably than the individual ones (Pfeffer, 1998 and Torrington et al, 2008). Indeed, also team-based incentives, as we will see more in detail in Section XVI, expose employers to some risks. Individuals contributing the most to the final output produced by the team may in fact find it unfair receiving the same sum of money received by the other team-members.

Variable pay schemes all too often are destined to fail by reason of the difficulties related to their effective and consistent management and implementation. Investigations carried out by Bowey (1982), Kessler and Purcell (1992), Marsden and Richardson (1994) and Thompson (1992) have all revealed that the reasons for incentives schemes failure are usually due to bad and ineffective implementation and to the lack of line managers' preparation and capacity to administer the scheme.

Line managers are of paramount importance for the implementation of every organizational strategy and policy and contingent pay and incentives schemes, especially when implemented by means of performance management processes, clearly make no exception.

In order to effectively work, contingent pay schemes need the full support of line managers, who need to genuinely believe in the importance of contingent pay to their organization success. Line managers "can make or break contingent pay schemes" (Armstrong, 2006) so that they need to effectively contribute to their direct reports objectives determination and to their consistent and fair performance assessment.

They should also find the time, usually reported as one of the more recurrent reasons for managers actually not doing it, to communicate and provide information to their direct reports on the way the organization's performance management system works and on the influence it can have on their salary.

As typical of many HR- and management-related issues, contingent pay cannot be effectively managed resorting to the one-size-fits-all approach; its success or failure is sorely depending on the different circumstances and contexts in which it is actually developed and implemented. This is what basically emerged from the findings of a thorough investigation carried out by Brown and Armstrong (1999), which come to two conclusions: contingent pay cannot "be endorsed or rejected universally as a principle" and "no type of contingent pay is universally successful or unsuccessful."

The study also confirmed that many organizations have experienced a lot of problems and difficulties, from the practical point of view, during the implementation of contingent pay systems.

Some other studies (Huselid 1995; Lazear 2000; Piekkola 2005 and Gielen et al. 2006) let it transpire a positive correlation between incentives systems and performance, whilst others (Pearce et al 1985 and Thompson 1992) have revealed no objective evidence of any interrelation. More in particular, Corby et al (2005) claim that although several investigations show a correlation between organizational performance and incentives schemes, there is no evidence of a causal relationship. Also these studies come to the same conclusions as the ones cited above: the success or failure of a scheme basically depends on the circumstances.

It can therefore be agreed with Torrington et al (2008) that failure is inevitable when the wrong scheme is applied, on the wrong people, in the wrong circumstances or for the wrong reasons.

What should in any case be clear when a variable pay scheme is introduced within a business is that the main aim the scheme intends to achieve is that to fairly pay individuals according to their real level of contribution and performance. The scheme can thus be considered as a type of complementary tool enabling employers to adjust individual pay accordingly where base pay structures or collective agreements should leave insufficient or no space to do it.

The circumstance that the variable addition is not consolidated into base pay has to be considered as a strategy and a genuine reason used by the employer to ensure that individuals are recognized an above-the-ordinary-salary-level as long as these deserve it and avoid, by extension, that an individual could receive a generous, or even an overly generous level of pay, whether this does not deserve it.

Balancing basic and variable pay – The financial and banking sector case

Variable pay is considered by employers and should hence be intended by employees, as an additional means used by organizations to recognise individual contribution to the achievement of the organizational aims and objectives, that is, of business strategy.

Variable pay is usually part of more complex reward packages companies have recourse to in order to encourage individuals to perform at the required standards and to foster organizational values and beliefs. Reward packages are by extension designed and developed according to a specific reward philosophy aiming at motivating individuals to perform and behave in the way it is desired by their employer.

Indeed, this mechanism is not invariably working in the same way. It can in actual fact hardly be averred that financial and banking organizations' reward policies and strategies have traditionally been developed on the basis of such an approach. Whether it has actually occurred, the organizational values and shared beliefs which have underpinned these reward policies and strategies have traditionally been rather different from those characterizing the private and public sectors organizations.

From the reward point of view, it can be maintained that have been traditionally adopted two different main approaches to compensation and reward: one pursued by financial and banking institutions and the other one pursued by all of the other industries. Over the years and across the world, banks and financial institutions have not usually been that concerned with designing and developing sophisticated and crafty total reward models. Indeed, traders and financial specialists are never even been expected to, nor essentially that interested in, being offered opportunities for involvement, participation and training. By contrast, this particular type of professionals has been invariably attracted only by one type of reward: financial reward and more in particular bonuses, therefore, variable pay (Longo, 2011b).

It could be argued that this is fairly wrong and that traders are, at least, interested in both basic salary and bonuses, but this really seems not to be the case. According to what has been told by a former senior HR Professional with an investment bank in London, the bank he was working at employed individuals receiving £5 million bonuses on a quarterly basis, whilst these received a basic salary between £100,000 and £150,000 a year. For these individuals base pay was so irrelevant vis-à-vis variable pay insofar as some of them did not even realize, on one occasion, that because of a problem occurred in the bank's payroll system, they did not receive their base pay for six consecutive months; it was indeed the HR department which found it out and informed the individuals concerned (Smedley, 2011).

This circumstance is actually hardly surprising whether we consider that traders are used to receive reward packages whose base pay component is relatively irrelevant and senior investment bankers usually receive bonuses worth between five and ten times their base pay.

The reward strategy and philosophy of financial services organizations have actually been traditionally based on a bonus culture which has encouraged the risk-taking behaviour that, after years of bad press and many banks liquidation across the globe, is nowadays regretted by the same banks boards.

Individuals working in the financial sector are used to be measured and consequently paid according to the immediate profits they are able to generate. Organizational culture is clearly essentially and virtually exclusively inspired by reward, or rather, by financial reward. The underpinning principle guiding bankers' activity has traditionally been that to make as much money as they could, insofar as overlooking the risks associated with their delicate role. The case of French trader Jérôme Kerviel, former trader at Société Générale, which attracted at the time a strong and passionate media interest, could represent just one of the most glaring examples of that (Longo, 2011b).

This is actually the way the financial sector system has traditionally worked. Traders have been encouraged to make as much money as they could in order to promptly receive large sums of cash. After all, even though banks were paying great sums of money in bonuses, these bonuses were calculated and paid as a percentage of what traders had been able to bring to their institutions. Consequently, it was not really a problem for banks, at least apparently, paying such huge bonuses as long as the system was flowing with no major inconvenience.

The flip side of the system was that, for eerie it might seem, in the event traders were not bringing in any sum of money and were instead losing it, nothing would have happened. The sooner traders were earning money for the bank, the sooner they will have had their bonuses paid; in case of good performance, these would have received very large sums of money, otherwise it would have occurred nothing.

Since the riskier a financial transaction, the larger the profit it can potentially produce, traders were practically encouraged to take more than their fair share of risk in order to make staggering profits. All of that rigorously in the short run in order not only to earn large amounts of money, but also to do it quickly. Once again, former Société Générale trader Jérôme Kerviel is a remarkable example of what a single person could be able to do, but also an amazing example of how true is that at superior level nobody was able to understand and foreseen the hazard of the transactions traders were carrying out on the banks' behalf and of how risk was not object of appropriate and constant control within the bank.

Making the case for and against variable pay

As suggested by the Independent Commission on Banking established in the UK, reported profits on the basis of which traders were paid were neither risk- nor time-adjusted. The latter reference has to be associated with the lack of consistency of the overall bonus system with the same banks' long-term interest. Bonuses were paid immediately, whereas benefits for the banks would have been eventually reaped in the future. As suggested by Stiglitz (2011), the system was rather designed to "encourage excessive-risk taking" or even gambling.

Could have HR and reward specialists helped to avoid the impending disaster caused by excessive risk-taking and bonus payments? Either we consider bonuses as a contributor factor to the financial disaster or as a "symptom rather than a cause" (Cotton, 2011), we can agree with Williams (2011) that it is very likely that HR could have actually done little or nothing to avoid the catastrophe. Before the issue emerged publicly, whatever HR's attempt to persuade the banks board to change their bonus payment system would have certainly been tantamount to pure madness. When in 2008 the Royal Bank of Scotland (RBS) changed its bonus system, shifting from cash bonuses to fully deferred bonuses, it underwent a brain drain phenomenon leading attrition to double.

Smedley (2011) suggests that the real problem was that nobody was considering the risks associated with "high-value reward for short-term risk-taking", the system failure was hence essentially linked to the way the overall mechanism worked and with the way banks were used to get massive profits.

Additionally, according to Wright (2011), the major risk was not that much associated with paying bonuses for transactions made in the short run, but rather with the circumstance that bonuses were paid before the final outcome of transactions were even known. Banks should have better used deferred bonuses approaches, but did not because they would have otherwise risked immediately losing their best talents. It would be just like proposing to Arsenal, Real Madrid or Inter Milan soccer players a £200,000 salary a year, professional footballers would definitely leave their teams lured by the staggering pay offered by Barcelona, Manchester City and Milan or by other football clubs.

The anonymous former senior HR professional cited above related that, as long as traders were enabling the bank to collect large sums of money, they could do whatever they wanted. Nobody, for instance, dared to fire a manager who had received several final written warnings on his personal record given the fact that this accounted for the 10 per cent of the bank profit.

After the financial crisis burst, the way banks and financial institutions were paying bonuses to their investment specialists emerged and after everybody was acquainted with the issue, as expectable, regulators come to play.

In the UK, the Companies Act 2006 already included specific rules concerning the disclosure of the banks and financial institutions boardrooms members' compensations, but traders and senior executives' pays were not included in the provisions.

Subsequently, the European Capital Requirement Directive III (CRD III) was promulgated and the UK Financial Services Authority (FSA) Remuneration Code was amended introducing some significant restraints.

More in particular, the FSA Remuneration Code introduced regulations prescribing that: no less than half the amount of the agreed bonuses could be paid in the organization's shares or in other equivalent non-cash means; no less than 40 per cent of variable pay for "code staff" (namely, senior managers, risk takers, staff in charge of control functions and other staff who receive a remuneration package at senior management level) had to be paid over a period of at least three years; this percentage (still of variable pay or incentives) had to be raised to 60 per cent for individuals receiving an annual pay of more than £500,000. Additionally, according to the amended provisions, financial firms could no longer offer guaranteed or retention bonuses of more than one year.

The EU CRD III directive went even further afield ruling that, in their annual report, organizations needed to:

- Provide information about the way remunerations were decided and reward systems designed;
- Explain the link existing between pay and performance;
- Explain factors and underlying principles for resorting to variable pay;
- Disclose comprehensive details about senior managers and risk-takers remuneration.

In order to avoid the risks associated with traders' activity, banks are now reinforcing their risk control systems and developing KPIs enabling them to assess individual performance in a systematic way, taking also into account risk exposure.

Just a very few years ago, whether proposed by the HR function, such measures would have been tantamount to HR bureaucracy and definitely rejected by the banks' boards (Williams, 2011).

Albeit it would have been virtually impossible to do it in the past, because of the way the overall system was working, banks are now turning towards more traditional performance management processes and developing engagement strategies (Wright, 2011).

The final and decisive coup de grace to the banking reward system, however, has been actually inflicted by the European Parliament approbation of the EU CRD IV, introducing, amongst the other measures, a cap on bankers' bonuses. More specifically, the new regulation provides for all of the banks operating in the European Union territory to comply with a 1 to 1 (1:1) ratio of base to variable pay of the reward packages agreed and paid to their staff. This ratio can actually be increased to 1 to 2 (1:2), but only with the approval of at least 66 per cent of the shareholders, whether these represent the quorum of 50 per cent of the total institution' shares; differently, the 75 per cent of the votes is required.

Making the case for and against variable pay

In the light of the new legislation and of its development, reward specialists are now clearly acquiring a major role within the banking and financial institutions. Their role, however, is really going to be everything but straightforward, they have in fact to design, develop and implement practices enabling their organizations to attract and retain individuals who are used to earn large amounts of money, and even quickly, not exclusively relying on financial reward. It is quite improbable that bankers will gladly accept a cafeteria benefit scheme, unless this would offer them the option to choose between, for instance, a Ferrari, diamonds and some other luxury items. Let alone it is expectable that these individuals would get excited about the introduction of a voluntary benefit scheme. It is therefore most likely that cash is still destined to remain the most appealing component of banks total reward packages. The legal framework development is thus likely to cause a turn of tide in the financial sector reward practices; in order to secure to investment experts the reward packages these are used to and readdress and counterbalance the effects of the new legislation, employers could decide to increase the fixed component of financial reward (Longo, 2011b).

Increasing basic salaries, however, would clearly impact the firm fixed costs, which will make it even harder for organizations to eventually face future downturn periods. Keeping higher the level of fixed pay would in fact mean that in case of economic recession, in order to reduce costs, banks will have no other option but to make people redundant (Longo, 2011b). Yet, once the fixed component of pay has been mutually agreed between the employer and the financial professional, this will need to be paid by the institution regardless of the individual performance. In the light of the peculiarity of the profession this does not clearly represent an ideal solution for the financial sector employers. It would be in actual fact like paying a sales professional a higher percentage of base pay irrespective of the annual total volume of sales s/he is capable of yielding. Indeed, in the banking sector it is even worse in that not only at the end of a year an investment specialist can contribute nothing to the bank, but this can also even cause a disaster. The case of Mr. Kerviel taught us a lesson also in this sense; putting aside the causes behind it, is it unquestionable that he originated a huge loss to the bank. What if, rather than having being paid approximately €100,000 a year, he would have received €400,000 or €500,000 a year? The bank would have practically suffered even more. It should be considered that individuals filling these positions can generate losses not necessarily worth to attract the media interest and that things can go objectively wrong when performing that type of activity. Whether these losses would be caused by several individuals at the same time the consequences could affect and cause remarkable prejudice to the overall financial institution operations, whereas these individuals would continue to receive staggering salaries.

Balancing overall reward packages towards variable pay does not potentially produce the same threat; banks could also pay their staff large sums of money, but only when businesses are performing sorely well. Risks would even be reduced to zero whether banks would pay bonuses only after having ascertained to actually having cashed in thanks to their professionals' activities.

Making the case for and against variable pay

In terms of reward and of how employers balance the ratio between fixed and variable pay, we have witnessed to two completely different scenarios. Banking and financial services employers have traditionally offered bankers reward packages markedly and predominantly variable-oriented, whereas private and public sectors employers have offered to their staff reward packages mostly fixed-oriented or, if the worst comes to the worst, balanced.

Whilst the aftermath of the financial crisis and the following reviewed legislation has more recently pushed banks to readdress their views about the composition of the reward packages they offer, or rather, of the ratio of fixed pay vis-à-vis variable pay, the other industries are doing and planning to do exactly the opposite. In general, private sector employers, contrary to banks, are the more and more incline to contain basic salary and to contribute more generous variable components of financial reward to their staff according to their actual results. Used in such a way, bonuses could actually be considered fairer than they might seem.

This is, for instance, what emerged from the findings of an investigation carried out by Farmer (2010). The study, covering the period from 2003 to 2007, when the new regulation imposing big companies to disclose their top bosses remunerations had been introduced, includes salaries of 200 UK's big organizations such as Tesco, British Airlines, GSK, BT and WH Smith. Findings of this study suggested that only 38 per cent of CEOs bonuses were received automatically that is without any correlation between the additional component of pay they received and their or their organization actual performance. In the remaining 62 per cent of the investigated cases, CEOs received higher financial reward packages if, and only if, they had done a good job enabling businesses to increase their profits or their company's share price. Conversely, that is, in case of negative performance of their organizations, CEOs undergone a salary reduction (Tobin, 2010).

Farmer's investigation shows that when making decisions about a financial reward package what matters the most is to separately consider its different components, rather than regard the overall compensation package. The study also revealed that private sector executives' salary packages are better designed (and, indeed, a step forward) compared to traders and banks senior managers' salaries in that during the period from 2003 to 2007 these salaries have the more and more aimed at rewarding long-term achievements rather than short-term success.

Over the period investigated, the proportion of variable reward linked to long-term incentives increased from 22 per cent to 28 per cent. Additionally, CEOs who wanted to receive the highest level of variable pay had to show their shareholders that they really deserved it achieving better results than their industry competitors (Tobin, 2010).

The study carried out by Farmer could not be extended to banks for a whole range of reasons, amongst them the fact that, as claimed by Farmer himself, a thorough and reliable investigation of banks pay would have required access to senior bankers' pay in addition to that of boards members. Farmer also highlighted the circumstance that at the time bankers bonuses were "used synonymously" with executive pay. More importantly, as discussed earlier, many bankers earn remarkably more than executives as a matter of course.

Farmer admits that the way bonuses are managed in banks is typical of the banking and financial sector only and that the same approach is not habitually used in any other industry.

Automatic bonuses

According to a relatively recent survey carried out by Towers Watson (2013), the number of employers offering to their staff bonus programmes is constantly growing compared to the figure emerged from similar investigations carried out in the early and mid-2000s. Findings of the study also revealed that the number of organizations extending staff eligibility to bonus schemes is constantly increasing. This can, in general, be perceived as a clear indicator of how employers are determined to link pay to performance and can thus be appreciated. What, in contrast, appears to be much less positive, or rather, completely negative is the use private sector employers are making of bonuses. According to the findings of the Towers Watson investigation in fact employers would be the more and more executing automatic bonus schemes practices by means of which individuals receive the pre-agreed component of variable pay regardless of their, or of their organization, performance.

Albeit private sector employees' proportion of variable pay to fixed pay is not comparable to that of bankers, whether confirmed, this trend should not be considered positively. It is obviously unlikely to generate any international financial crisis, but drawbacks for organizations can potentially be remarkable. Inasmuch as identifying and developing brand new, effectual approaches enabling employers to really motivate their staff becomes the harder and harder, completely losing the support of reward to this extent can seriously risk completely weakening and jeopardizing the effectiveness of any reward strategy.

In many cases managers may find it objectively difficult to assess and measure their direct reports performance, but the diffusion of automatic bonuses is not really the correct solution; on the contrary, this could contribute to magnify the issue. Whether measuring performance should reveal to be particularly tough and tricky, especially if the business has not provided managers the tools and training necessary for these to properly carry out this task, managers could try to base their assessment on individual behaviour, gained competencies and capabilities and other similar, albeit judgmental, elements, rather than automatically pay bonuses.

Automatic bonus practices may help employers to attract individuals from the external environment, but whether strongly attracted by this bonus payment mechanism it can hardly be believed that these would be hard workers, hi-flyers or real talents.
Whether automatic bonuses should spread amongst private sector employers, it is very likely that bonuses will gain back the media interest anytime soon, whereas firms fostering these practices might be prompted to face reputational risks.

The impact of the European financial sector regulation development

The approbation of the EU CRD IV Directive, which had been expressly developed with the intent of preventing the risk of other international financial crises, introducing specific rules about the bonus-to-salary ratio, shows that, at least at the European political level, a clear relationship between bankers' bonuses and the past international financial crisis has been identified.

The effects and implications of the Capital Requirements Directive are actually twofold, on the one hand it imposes clear constraints to the banks autonomy to determine the bonus-to-salary ratio of employees receiving an income above a pre-set threshold; whereas on the other hand it introduces more stringent and severe provisions aiming at increasing banks' reserves whilst ensuring their prompt availability, or rather, liquidity.

With particular reference to the bonus-to-salary ratio, the bonus cap has been introduced as regards the reward packages received by individuals deemed as "material risk takers." According to the new regulation an individual who do not receive a reward package exceeding €750,000 and who do not manage any risks for the institution this work with can be exempted from the bonus cap limitation. Individuals receiving reward packages between €750,000 and €1,000,000 can be exempted from the limitation whether their exclusion is approved by the national regulator, in the UK the Prudential Regulation Authority. For individuals receiving over €1,000,000 the waiver will need to be approved by the European Banking Authority (EBA).

The imposition of a bonus-to-salary ratio has actually caused vigorous discussions and reactions especially in the UK, prompting the Government to lodge a complaint with the European Court of Justice (ECJ). Further concern is caused by the circumstance that the FSA as a consequence of the introduction of new laws usually amend regulations, in this case the Remuneration Code, imposing more stringent and cogent regulations vis-à-vis its European counterparts.

As Nava (2011) pointed out, in order to avoid the repetition of international financial crises European countries should all have the same rules and this objective can only be attained by means of a common regulation. This is clearly supportable, but European regulations do not indeed apply to the United States, Australia and the Asian countries. The best European talents, because of the weakening of the variable reward packages, that is bonuses, European banks and financial institutions can offer them, could opt to join American and Asian employers lured by the attractive reward packages these are still able to offer. Indeed, the unprecedented EU Parliament move could hopefully push the American Congress and the Asian lawmakers and regulators to follow suit but, at the moment in time, there is no evidence that this is within their plans.
The UK government and financial sector fierce opposition to the new provisions is obviously justified; its introduction can remarkably weaken the City attractiveness and appeal at global level. As highlighted by Browne (2013), London is not representative of the UK's banks only, but rather of all of the international banks based in Europe, which

are usually operating from London. According to the EBA, in 2012 the number of “high earners” in the UK has increased from 2,436 to 2,714, compared to the 212 high earners recorded in Germany, the 177 in France and the roughly 100 high earners existing in Italy and Spain (Clinch, 2013). The central role of London within Europe is clearly not threatened; talents from across Europe have always moved to London and will possibly continue to do so, provided these would not decide to better move to New York, Tokyo, Singapore or Hong Kong in order to receive larger financial reward packages.

As we have seen above, the EU CRD IV, in a bid to make more unlikely or less relevant the eventual public intervention in case of other financial crises, introduced regulations prescribing banks stricter capital requirements and better liquidity management. The objective of these rules is clearly that to force banks and financial institutions to keep on board some parachutes. The fact is that banks practically have to pay for these parachutes, with the immediate consequence that they will have less money to invest available to them. In order to continue to be productive and not reduce the productivity levels to which banks are used, these should attain better ROI rates. All of that, as appropriately suggested by Wright (2011), could just have the effect to increase the temptation to favour short-term risk investments.

The question is: can actually regulations help to definitely address the problem? According to Cotton (2011), regulations can have a limited effect in that they are normally retrospectively drafted, in the sense that they tend to settle problems when these have already occurred; as such, regulations are not likely to prevent the impact that unexpected new circumstances may produce. This entails that whether in the future a financial crisis should burst because of different-related reasons, the current regulations could very likely turn to be ineffective to prevent its occurrence and let alone to resolve it.

Moreover, according to the former City senior HR professional cited in the previous paragraph, traders will always strive for cash and very generous bonuses so that they will constantly look for the best, that is, more rewarding opportunities and will not be likely to stay any longer in a bank whether the bank around the corner is offering more generous bonuses. After all, allegedly traders are used to stay with the same bank for no longer than a 3-, 4-year period time, so that changing employer for bankers is considered something fairly usual. The problem is that, because of the new legislation, to attract talents banks necessary have to offer larger amounts of base pay on the basis of which will be, by extension, determined variable pay too.

The rules imposing banks restrictions on the way these have to manage their reserves can, in broad terms, be considered more suitable for and fitting the aim for which these have been designed and prepared. In contrast, the group of rules aiming to control bonuses can be considered fairly contentious and not that effectual to attain in practice the intended, overall new legislation aim.

Indeed, banks bonus schemes should have actually been, and from the very beginning, the object of revision, but not from the quantitative point of view, but rather from the qualitative and procedural point of view. Banks boards and indeed not lawmakers should have spontaneously realized that things were not going as intended and that, crisis or no crisis, the system sooner or later would have spun out of control. Overriding the way bonuses had been traditionally paid, should have been put high in the agenda of banks boards, regardless of and before the external political intervention. Bank institutions in the end fall into the trap of the system they had developed themselves, establishing a vicious and consolidated circle from which it was virtually impossible to abscond. Banks had possibly found out that the system had seriously become unsustainable, but none of these dared to change anything for fear that high fliers would have left their institution.

Introducing deferred bonuses, paying bonuses only after having ascertained the successful outcome of the financial activities executed by the relevant professionals and introducing some forfeitures in those cases in which these activities would have resulted in a loss for the bank, just to cite a few obvious examples, should have been considered as minimum standard measures banks boards could and should have to autonomously introduce and implement. Reward professionals could have done the rest, by introducing, amongst the other measures, forms of reward which to some degree could have made bankers wait for the bonus payment "less painful."

Once again, the problem in not of qualitative nature, professional footballers will still continue to be offered and enjoy outstanding amounts of money, as long as they provide audiences with the excitement and fun these are expected to experience during a football match. Likewise bankers could have been continuing to receive the bonuses they are used to, as long as these would have generated additional income for their banks. Is not hence a matter of quantity, but rather of quality and actual facts, the income provided by bankers should have unquestionably been real, genuine and verified.

The role of banks and financial institutions reward managers is now clearly important and tough as never before. Time has definitely come for financial institutions boards and their reward managers, irrespective of the amendments which could be or otherwise implemented to the CRD IV and even regardless of the legal framework developments, to seriously work on reward practices and find effectual ways to retain and attract high fliers offering them something different and to an extent more than just instant cash. This should be a boards' and reward managers' duty, who well know the real reality of their sector, not a regulators one.

Underpinning variable pay practices

Various theories and contrasting findings of investigations notwithstanding, variable pay has unvaryingly been considered, and still remains, an important component of reward and of total reward practices. Reward managers and professionals need hence to acquaint themselves with the several forms by means of which it can be offered to individuals, as well as with the collateral and side-effects it can potentially have in practice.

Making the case for and against variable pay

As discussed in many occasions earlier a universal recipe for successful reward practices, and let alone for effectual variable pay practices, does not exist. Findings of the very large number of studies and investigations carried out over the years and across the globe on the effectiveness of variable pay, determined and granted on the basis of individual performance, have revealed that in many circumstances this approach has produced very good results, whether in many other cases it has ended in failure and turned to be a fiasco. The only conclusion which can be reached is hence that the successful implementation of a variable reward programme depends on the circumstances; by extension, the effectiveness of variable pay practices can be essentially deemed as contextually-based.

The fact that the introduction of a variable pay scheme ends in failure does not necessarily entail that the organization is not compatible with the introduction of such type of programmes. The reason why the initiation of a variable pay plan proves a failure might in fact be due to the launch of the wrong programme or to the introduction of the right programme at the wrong moment. The contextual or situational aspect is therefore unquestionably of paramount importance.

The design and development of a variable pay scheme are usually fairly demanding, it is therefore unlikely that, after the efforts and resources deployed to design, develop and introduce a new scheme later resulted in a failure, an organization and its management would be willing to make another attempt, unless a considerable length of time has actually passed. When introducing or amending such programmes hence employers and reward professionals have to carefully consider all of the possible downsides and potential causes for failure from the outset. It has to be definitely considered preferable postponing or even withdrawing the introduction of the scheme, rather than introducing the wrong programme at the right time or the right plan at the wrong moment.

Albeit the miraculous recipe for a universal variable pay scheme does not exist, there are a few tenets and aspects which, whether respectively duly considered and managed by the architects of the scheme, can enable these to design the most appropriate programme effectively fitting the organizational circumstances. If worse comes to worst, duly considering these elements at the outset will enable employers to avert disaster and cushion the eventual blow. Indeed, the successful introduction of the scheme is essentially based on the accurate and thorough knowledge of the organization and of its people and on the investigation of all of the aspects which may have an impact on the employees concerned, both individually and as part of a group.

The first aspect which clearly needs to be taken into consideration is hence represented by the contextual factor. Reward practices, regardless of employers' awareness, talk. The behaviour and actions which the employer wants to recognize by means of variable pay has to be reflected into the organizational culture, or rather, be reflective of organizational culture, and must be in line with the current business circumstances, financial conditions included. Consistency, as usual, is crucially important; introducing, for instance, schemes rewarding individual performance whereas the organizational culture is aiming at fostering teamwork, or introducing a new scheme when the business is experiencing financial difficulties which may put the concern in the position not to pay the promised cash additions, can just represent a couple of glaring examples of this type of scheme misuse.

Employers and business executives tend sometimes to underestimate the effects produced by the introduction of new policies, which later reveal to be inconsistent and inappropriate, not to mention ludicrous. Being different the one from the other, individuals may react to the introduction of a new scheme in many disparate, but negative ways, do not necessarily openly manifesting their disappointment and discontent. This, however, does not really mean that individuals do not perceive inconsistency and the eventual lack of integrity and that this does not affect their sense of belonging, motivation and ultimately performance. Additionally, all too often it is the occurrence of events like these which accounts for organizational climate being perceived by individuals differently from the organizational culture that the business management is striving to foster within the business.

Whether within a firm should actually coexist dissimilarities from the contextual point of view, employers should appropriately decide to implement different schemes according to the different organizational areas or business units peculiarities. These contextual variances may also be reflected in the existence, within the same company, of different cultures. Under these circumstances, in order to ensure the scheme consistency and favour its employee acceptance, the introduction of different schemes could even be preferable to the introduction of a unique common programme which might work well in some cases and drastically fail in others. This objective could also be attained by maintaining the same scheme framework, but changing according to the circumstances the mechanism by means of which it is operated in practice.

Context and situations are however very likely to change over time, the contextual factor has therefore to be considered as a fairly dynamic aspect influencing variable reward schemes. It can consequently be concluded that variable pay programmes need to be flexible and adjustable in order to be amended according to the circumstances. This feature leads to consider the schemes maintenance as an additional key aspect to be carefully weighed up by reward managers and professionals. What works well and proves to be appropriate at the moment in time may reveal to be outdated, inappropriate and not working by any means in the near future.
In the light of the changeability feature of the contextual factor, and practically as a natural consequence of taking account of this aspect, variable pay plans need to be tailor-made. Reward managers should therefore act as bespoke tailors capable of designing variable reward plans meeting individual and organizational needs under the current circumstances, but being at the same time constantly ready to re-design and implement the required alterations as soon as these might be required.

The effectual introduction of variable reward plans is sorely depending on their credibility and trustworthiness. Albeit, as we will discuss later in this paragraph, execution typically represents a key success factor when introducing and varying management and HR practices, it is worth stressing the importance assumed, especially in this case, by the design and development phases.

In order to a variable pay programme be genuinely trusted by individuals, it is important, first of all, that each award granted by the employer is proportionate to the actions and outcome produced by the individual concerned (Reilly, 2003). A small premium for an outstanding feat or achievement will be negatively perceived by an individual as well as the award of a large amount of money for the attainment of a relatively modest, albeit appreciable and appreciated, result would be. The respect of this tenet is also important in order to establish a clear scale of values and the worthiness of variable rewards. Individuals need to be aware from the outset that their actions, activities and consequent appreciable output are rewarded with a premium whose worth is proportionate to the objective value of their attainment.

As suggested by Reilly (2003), it is also absolutely important for employers to establish a clear line of sight between the outstanding achievement, behaviour or performance and reward. Is has not to be neglected that the moment a variable reward plan is introduced, this has to clearly communicate in practice the scope for its introduction. Establishing and maintaining a clear cause-effect relationship between achievements and pay additions represents therefore the best way employers can factually communicate and show individuals that the scheme is fulfilling the promise.

Inasmuch as reward systems need to be fair, equitable, unbiased and sustainable, a fortiori these tenets need to be at the basis of variable reward practices. Only and only if employees perceive and feel the scheme as fair and equitable will these trust it and contribute to its successful implementation enabling in turn employers to attain their intended objectives.

Transparency, clarity and simplicity definitely represent additional, pivotal features of a variable reward scheme. In order to trust and appreciate the scheme individuals clearly need to understand it and its mechanism. Communication and employee involvement, as usual in such circumstances, is crucially important and can really make the difference.

Notwithstanding, the careful design and development of bespoke variable reward schemes can head employers nowhere without appropriate and consistent execution. Fairness, proportionality and timeliness can be impressively put on paper, but whether these underlying principles are not properly implemented in practice the introduction of the scheme can just be destined to end in an inevitable and predictable failure.

Companies' managers need to be involved in the process and develop a genuine feeling and conviction that the introduction of the scheme can actually help them to effectually attain their objectives, as well as those of the organization, by receiving the full support of their direct reports.

Inasmuch as employees will trust and accept a new plan whether they really know it, managers can support and become convinced advocates of the scheme whether they are familiar with the mechanism of the scheme and of the way it has to be managed and operated. Provide to all of the business managers training in the way the scheme has to be managed will certainly avert many issues to raise soon after the scheme introduction and throughout its execution.

Taking into account all of these elements can definitely help reward managers and professionals to design and develop sound variable reward plans, safe in the knowledge that financial reward in general and variable pay in particular can be regarded as a means to the end and not as the only means to the end. The effectiveness of financial reward is essentially based on the bundle approach, that is, on the synergetic use of different, simultaneous actions on which is in essence based the total reward approach. In any case, employers and managers should definitely invariably act on Herzberg (1987) suggestion: "if you want people motivated to do a good job, give them a good job to do."

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PART FOUR

Assessing and managing performance

Section XIV
Goal-setting and performance management

Introduction

As we have seen above, contingent and variable pay schemes have always caught employers' interest and attention in that genuinely seen and perceived as an attractive and fascinating approach to reward management. Indeed, whether this type of pay arrangements is not used by many employers is because what it is deemed to properly work in theory has not always proved to be effective in practice. All too often, the introduction of variable pay schemes has in fact just proved a failure.

The reasons why, contrary to all expectations, these programmes usually end in failure are twofold: firstly, managers' difficulty to agree with employees clear and realistic goals; secondly and most importantly, the difficulty to objectively assess and measure these.

Goal–setting

Irrespective of the tools or processes an organization has recourse to in order to assess and review performance (either performance appraisal, or performance management or performance appraisal as an effective tool of performance management), setting and agreeing objectives with individuals definitely represents one of the most difficult tasks managers have to deal with as part of performance review. Even more so, when variable pay arrangements are in place within the business and pay decisions are exclusively made on the basis of the reviews outcome.

Albeit in many cases objective-setting is virtually perceived by management as a formality or even as a nuisance, managers at all levels should take extra care with this activity. Putting aside the objectively existing difficulties associated with the execution of this undertaking in fact goal-setting definitely represents a very sensitive issue for employees. Beyond the link which may or may not be formally established between pay and performance, individuals usually associate a remarkable importance with the attainment of their objectives and with the feedback received from their managers.

Goal-setting and performance management

Dessler (2005) and Williams (2002) suggest that goal-setting is indeed part of an integrated performance management process whose components are identified in objective-setting, performance appraisal and development. This integrated approach is also intended to align individual goals with organizational objectives, linking together other relevant aspects of HRM such as reward – although this type of linkage is considered by many questionable – and development, and to achieve better and increased levels of overall performance by means of enhanced individual and organizational effectiveness (Lucas et al, 2006).

In order to properly and effectively contribute to enhance organizational performance, individuals need to have crystal clear ideas of the mean and scope of their contribution and of what their managers are actually expected them to deliver. Their efforts and contributions should then be goal-directed and awareness-based. In order to be successful, however, employees also need to have the knowledge and skills necessary to achieve the results these have agreed with their managers (Longo, 2011a).

As we will discuss later, this is basically the reason why performance management has to be intended and managed as a continue process by means of which managers and staff have the possibility and the opportunity: on the one hand to constantly discuss the objectives agreed and the best and most effective ways to achieve these and on the other hand to make plans for the individuals professional development. Goal-setting forms by extension a fundamental part of performance management, the starting point of the process and the pillars on which it builds up (Longo 2011a).

According to Suutari and Tahvanainen (2002), the typical starting point of a performance management cycle should be represented by performance planning. It is during this stage that managers should plan and define the objectives they intend to set for, and agree with, their direct reports. It is also of pivotal importance that these objectives are firmly linked to, and aligned with, the organizational goals and strategy.

Targets can be agreed in the form of Key Results Areas or Accountabilities (KRA) and have to be supported by performance standards and performance measures (Lukas et al, 2006).

Both goal-setting and expectancy theories suggest setting a small number of goals for each individual. Nonetheless, this is not necessarily a method ensuring a successful outcome of its own, both because individuals could find it difficult to understand how the achievement of their personal objectives fits in with the organizational goals and because of the likely diversity of the agreed goals, which may ultimately require a series of qualitative different efforts and entail the knowledge of different fields.

Albeit defining individuals goals and objectives does not really represent an easy task, it does not indeed represent the most difficult feat managers are called to perform when dealing with performance review either. Goals in fact not only need to be defined and agreed, but, what trickier, they also need to be assessed and measured which, in most cases, may reveal to be a remarkable feat to achieve of its own.

In general, goals can be considered as "hard" or "soft" according to the circumstance that these are associated with the "hard" or "soft" features typical of an individual and the activity this perform. As a general rule, are deemed as "hard" those goals which, depending on an individual technical knowledge and capability, are linked to actions which can more promptly and relatively more easily be assessed by means of objective measurement methods. By contrast, are defined as "soft" those objectives which being exclusively linked to more intangible features, like individual traits or behaviour, cannot be objectively measured. These remain hence subject to preconception and personal appreciation and, as such, potentially biased. In practice, the vast majority of managers, when setting individual objectives, have recourse to a blended approach taking into consideration both "soft" and "hard" individual features (Lucas et al, 2006).

The influence of culture

A number of Authors have stressed the importance of the effects which may be produced by the national and cultural contexts on goal-setting practices. Amongst these, it seems particularly interesting what Nyaw (1995) and Shen (2004) have suggested in respect of China: both of them argue that large state-owned businesses set goals taking into account also moral and ideological behaviour.

The different geographical context actually comes to play also in the way goals are agreed; the reference here is to the involvement or otherwise of the individuals concerned in the process. Goal-setting as a joint activity where individuals and their managers agree and discuss together objectives is, in particular, seen as a process typically used in western countries and not promptly transferable to other types of cultures, especially those characterised by a high level of power distance (Fenwick, 2004), (power distance relates to the extent less powerful members of society accepts uneven distribution of power. Applied to businesses, power distance is associated with the extent of authority centralisation and the exercise of autocratic leadership styles).

Studies carried out by Tahvanainen (2000) revealed that multinational corporations use to vary their goal-setting procedures according to the different countries concerned. She found out, for example, that the German and Swedish business units of a Finnish multinational corporation were adopting a joint approach to goal-setting, whilst in the American business unit of the same multinational corporation goals were assigned to employees by managers.

In China, where national culture is extremely influenced by the principle of "hierarchy respect" and by the fundamental requirement of never "loosing face", businesses not only do use to assign employees objectives, rather than agree these with individuals, but also use to set goals, both in number and in nature, in order to facilitate their attainment (Lindholm et al, 1999).

Indeed, also organizational culture can have a remarkable impact and has hence to be considered when defining individual objectives. This aspect has to be duly and carefully considered by managers in order to avert inconsistency and jeopardize integrity within the business. Just to cite a fairly humdrum example, setting goals encouraging individual performance would certainly be perceived as in sharp contrast with a culture aiming at promoting teamwork.

How to set goals

Objectives should be basically set in line with the results an organization is expected individuals will yield, on the basis of their capabilities and within the end of a pre-set period of time (a year, a semester, a quarter) or the conclusion of one or more assignments. As suggested by Armstrong (2006), goal-setting represents thus a very important stage of the overall performance management process in that it basically represents the tool enabling employers to properly define and manage organizations' expectations and to have clear and precise elements from which starting and developing performance reviews.

Goal-setting also has a pivotal role in enabling employers and individuals to establish a clearer psychological contract. Especially in those cases in which objectives are jointly discussed by managers and staff, it represents a great opportunity for individuals to clearly understand what their managers are expected from them. Nonetheless, performance reviews could give the chance to achieve nearly the same result also in those cases in which organizations use to unilaterally assign goals.

Objectives, depending on their specific characteristics, can be classified into four main groups:

- *Work objectives* – that is those objectives typically associated with and linked to a particular job and which can be identified and expressed as key result goals in role profiles;
- *Targets* – which are all of those quantifiable goals which can be by extension objectively measured in terms of, for instance: output, throughput, income, sales, number of complaints, cost reduction, level of service, etc.;
- *Tasks* – objectives that can be set according to the conclusion and achievement of single or of a number of tasks or projects within a specific time frame or on the basis of the attainment of the objectives identified for each stage of a project;
- *Behaviour* – albeit behavioural expectations are usually referred to the entire workforce, in that directly linked to an organization's culture, core values and shared beliefs, quite often, managers also use to individually set behavioural objectives. Sometimes behavioural expectations could be expressed by specific and well identified examples of desirable or undesirable behaviour. This approach can turn to be particularly useful when setting performance level standards and reviewing performance (Armstrong, 2006).

The most relevant and important theory about goal-setting, which managers cannot really afford to overlook, at least for the enlightening tenets it introduced at the time of its formulation, is the goal-setting theory developed in 1968 by Edwin A. Locke (Locke, 1968) and later further enriched by the same psychologist in collaboration with Latham (Locke and Latham, 1990 and 2002).

Goal-setting and performance management

This theory is based on four main pillars actually trying to provide solutions to the practical difficulties usually encountered by managers when setting or agreeing objectives with their staff. The tenets underpinning Locke's theory can be summarized as follows:

- *Goals intensity* – to stimulate higher levels of performance and push individuals to do their outmost, managers should invariably set challenging goals. However, goals need to remain within individual capabilities; differently individuals would be deterred from making efforts and from trying and attaining the pre-set objectives, and would inexorably give up;

- *Goals specificity* – whether individuals do not have a clear understanding of what they have to achieve, these cannot practically be successful. Goals need hence to be clearly communicated and understood by employees; individuals cannot be in search on the unknown. Only whether employees have crystal clear ideas of what it is expected from them these will be able to concentrate, make the necessary efforts and attain valuable results;

- *Goal-setting participation* – whether goals are decided and agreed between managers and employees it is much more likely that these will strive for their attainment. Individual involvement is also paramount for employees full understanding of what it is expected from them, so that there will be no need for managers giving further explanations and clarifications. It clearly sounds different for an individual thinking about the objectives s/he has agreed with his/her manager, that is, *our objectives*, rather than to the objectives unilaterally assigned by his/her manager, that is, *his/her objectives*;

- *Feedback of past performance* – receiving feedback on past activities and actions is paramount for individuals. This effectively helps them to find out whether their actions and activities are considered appropriate and the results produced successful by their managers. Feedback will also help individuals to determine whether these have to eventually change their behaviour in order to achieve better levels of future performance.

An additional, important aspect managers should consider when setting objectives is actually time; insofar as Fried and Slowik (2004) averred that Locke's goal-setting theory could work better and prove to be hugely successful by introducing this additional component. More specifically, the Authors claimed that in order managers to be able to deem whether the pre-agreed objectives have been fully attained or otherwise by individuals, managers also have to take into consideration the length of time required by these to attain those objectives. A set of pre-identified goals could be considered challenging whether achieved in a, for instance, one-year period time, whereas the same set of objectives could be deemed as extremely straightforward or even meaningless whether attained in, for example, a three-year period time. Objectives can thus be judged challenging and valuable depending on the time used to attain them. A clear identification of managers' expectations in terms of the time necessary to achieve a goal or a set of goals is hence important.

When setting or agreeing objectives with their direct reports, managers should care about another variable very likely to influence individual performance, namely self-efficacy. This trait of individual behaviour could actually be directly associated with the first pillar of the goal-setting theory, that is, goals intensity. Self-efficacy essentially depends on an individual confidence and trust to be able to attain objectives and achieve results. In general, individuals with a high level of self-efficacy not only try hard to achieve their objectives, but also react positively to negative feedback making additional efforts to attain their goals; by contrast, individuals with low level of self-efficacy are prone to give up as soon as difficulties arise (Boddy, 2008).

The most widely used method to set goals, essentially fruit of a combination of the goal-setting theory and Fried and Slowik subsequent enrichment, is that known under the acronym of SMART, where:

S = *specific* and *stretching*: objectives have to be clear and promptly understandable by individuals. These also have to be challenging and demanding insofar as enabling individuals to stretch, exploit and resort to their full potential. Specific goals enable individuals to gain a better understanding of the barriers they have to overcome, the efforts involved and ultimately to gain conscience of the goals feasibility;

M = *measurable*: despite this requirement is everything but straightforward to achieve, objectives need to be measurable according to a pre-identified rating scale. Even though it may reveal impossible having recourse to a clear assessment method, providing feedback will enable individuals to understand the value and size of their actions and identify an indirect, unofficial way of measuring their performance;

A = *achievable* and *appropriate*: inasmuch as goals have to be challenging they also have to be realistic, otherwise individuals will never seriously try to achieve them, to the detriment of their and of their organization's performance;

R = *relevant*: aligned to the business' goals and, also thanks to this circumstance, perceived as meaningful by staff;

T = *timed* or *time framed*: meaning by that that objectives need to be achieved within a clear and pre-identified deadline.

As anticipated above, it is clearly easier to set objectives in those cases in which results can be promptly, quantitatively assessed. In many other occasions, however, setting objectively measurable goals can reveal to be a very difficult task.

Below some examples of objectives applicable to the HR function' staff:

- *HR Managers in charge of payroll* – goals could include:

    - ✓ The introduction of a maximum rate or number of mistakes in staff payroll per month or year,
    - ✓ Respect of deadlines for salary payments,
    - ✓ Response time delays reduction to employees' queries;
- ➢ *HR Advisors* - objective-setting could be linked to the length of time these need to provide answers and sort issues out and to their capability of actually settle problems with no need for external advice and/or counselling;
- ➢ *Line Managers* – objectives could be linked to:
    - ✓ Their capability to avoid disputes to arise,
    - ✓ Their capability to resolve disputes internally, once these should arise, in order to avoid these to be brought before a Judge of the Employment Tribunal,
    - ✓ Performance reviews completion meeting a pre-set deadline,
    - ✓ Their contribution to reduce sickness rate;
- ➢ *Recruitment and selection staff* – goals could be determined with reference to:
    - ✓ the number of resignations received by new recruits within a certain period of time from their employment,
    - ✓ the capabilities of newcomers to adapt to organizational culture or be already in line with this;
    - ✓ the assessment of how successful and fitting for purpose have new recruits showed to be;
- ➢ *Training staff* - objectives could be set with reference to these professionals' capabilities to relatively quickly identify and assess individual training needs and find appropriate and quality providers within budget constraints.

Determining and identifying staff goals is easier whether managers have clear ideas of what the role of each of their direct reports consists in. For glaringly obvious it might appear to be, when agreeing and setting objectives managers should mostly focus on what they are actually expected from their staff. Carefully consideration should also be paid to the behaviour the employer is expected from each individual.

Once objectives have been agreed between managers and employees, or have been set by the former for the latter, managers and employees should regularly meet in order to:

- ✓ Determine which objectives have been and have not been actually met,
- ✓ Discuss the difficulties eventually encountered and faced by individuals to meet their goals,
- ✓ Agree whether any amendment has to be made to the previously agreed set of goals,
- ✓ Discuss and assess whether the individual has the competencies and skills necessary to accomplish the future tasks and assignments,
- ✓ Identify training needs accordingly.

As for the way objectives have to be expressed and communicated to staff, it would be definitely better to express them in the "what" form, rather than in the "how". More specifically, managers should discuss with employees what they are expected them to achieve, rather than how and in which way these are supposed to attain their goals. The "what" form reveals to be more powerful in practice because enables individuals to better express their potential, by designing and developing of their own the approaches they consider most suitable and appropriate to achieve the agreed objectives. Explaining targets exclusively resorting to the "what" approach, however, might give raise to problems; individuals, in fact, could deliberately or inadvertently resort to inappropriate ways to attain them. Notwithstanding, individuals' objectives should invariably aim at defining the final outcome expected by the employer, rather than the actions necessary to attain them or the way they have to be attained: "objectives are outcome/results oriented rather than task oriented" (Torrington et al, 2008).

Considered the motivating effect a "what" objective-setting approach can produce, to avert to fall into the pitfalls typical of this approach, managers could consider resorting to this method whilst eventually providing individuals just partial, limited indications on the "how" side. More specifically, partiality has be intended in the sense that managers should provide employees with indications referred to the "how not", rather than to the "how to" side of doing things. This approach will permit managers to give an appropriate extent of latitude to individuals, who could then be enabled to express their potential and talent, whilst ensuring these not having recourse to inappropriate resources or solutions. By establishing a continuous relationship and exchange with their direct reports, managers should have no problem whatsoever to find out when it will be the time to reduce and progressively refrain to provide individuals guidelines about the "how not" doing things.

In the event goal-setting should include, beyond goals, precise indications about the way to achieve these, individuals will completely be deprived of any latitude, personal involvement and meaningfulness in carrying out their tasks. Employees would feel as merely doing just what their managers ask them to do; objective-setting will not be perceived by any means as a compelling exercise and individual level of motivation would be inevitably destined to drastically drop. That is why, according to the circumstances, an initial blended (of "what" and "how") approach aiming at bit by bit leaving individuals full autonomy on "how" to attain targets, should be better pursued as the most appropriate by managers. In the event these should find out that individuals are not making any progress with their capability to autonomously cope with the "how" aspect of goals attainment, the developmental side of the performance management process should come to play. Managers should find out which skills are lacking individuals insofar as preventing them to autonomously determine the most appropriate way to achieve goals and do whatever they can to bridge the eventually identified gap. In these cases managers' support to individual development is clearly particularly crucial.

In line with the aim pursued by the overall performance management process, goal-setting should not just be limited to identify objectives producing well specified outputs; attention should also be paid to goals which can be expressed by input targets. An objective-setting approach keeping in due consideration input targets will enable organizations to develop individuals' competencies and skills which are valued and considered of paramount importance by the organizations themselves (Armstrong, 2006). After all, it is just developing individual abilities and capabilities that businesses will be able to achieve their objectives and strategies. The more capable, skilled and knowledgeable people an organization and their managers will be able to develop, the more ambitious objectives an organization management will be clearly able to set for its staff. Since individuals' goals and targets are basically contributing to the attainment of the overall organizational success, the meaningfulness of this approach is fairly evident.

Measuring performance

Performance measurement can basically be considered as an effective way to assess and review the progress made and the results yielded by individuals against the pre-set objectives.

Especially when measurements are applied to human performance and considered part of a Performance Management process, performance measurement should not be used to decide how to reward people (Armstrong, 2006), but it should not be used to penalise individuals either.

Performance measurement, as a valuable component of performance management, should rather be considered as a means helping managers to appropriately and consistently establish and maintain with their staff a positive and constructive communication process. As such, it can be considered as an effective management tool, but not intended to enable employers to exert a more strict and invasive control over their staff, but rather to help individuals to avoid falling into the trap of: "if you do not know where you are going, you will end up somewhere else."

Good reasons to measure performance are provided by Anon (this quote is attributed to several Authors, but Anon seems to be the most likely to have actually formulated it): "You cannot manage what you cannot measure" and Lord Kelvin:"When you can measure what you are speaking about and express it in numbers, you know something about it."

Since individual goals are set in order to help organizations to achieve theirs, and that is why individual objectives have to be aligned with organizational goals, measuring individual performance can be indirectly considered as a way to also track and identify an organization's progress in achieving its overall objectives.

Performance review, enabling managers to identify and assess the reasons for individuals achieving or not achieving, fully or partly their goals, could also reveal to be an effective and valuable means to identify the type of support individuals might require in order to improve their level of performance. As such, performance measurement can also be considered as a means to provide individuals opportunities for growth and, as suggested by Armstrong (2006), as a solid and consistent basis to provide and generate feedback.

Inasmuch as a specific methodology – like the SMART approach – is definitely useful to enable managers to effectively and consistently set goals, a specific performance measurement method is also important in order to consistently and reliably enable these to measure final results. Unbiased and objective performance judgements will in turn contribute to favour the overall reward system acceptance and legitimacy.

More specifically, a performance measurement system should be based on measures which can be summarized under the CORAL acronym:

- **C**lear, relevant and widely understood;
- **O**wned, managed and shared by the relevant managers;
- Based on a **R**ecurrent **R**elationship between managers and individuals and on **R**eliable and **R**elevant data;
- **A**ble to encourage individual development and growth and not to deter individuals to perform better and go the extra mile;
- **L**abour-based, that is, based on individuals' practical actions, output and behaviour and as such objective, unbiased, sustainable, equitable and fair (adapted from Longo, 2011b).

Performance measurement should be thus designed and planned in a structured way and should essentially be based on four fundamental stages linked one another by somewhat of a cyclical process.

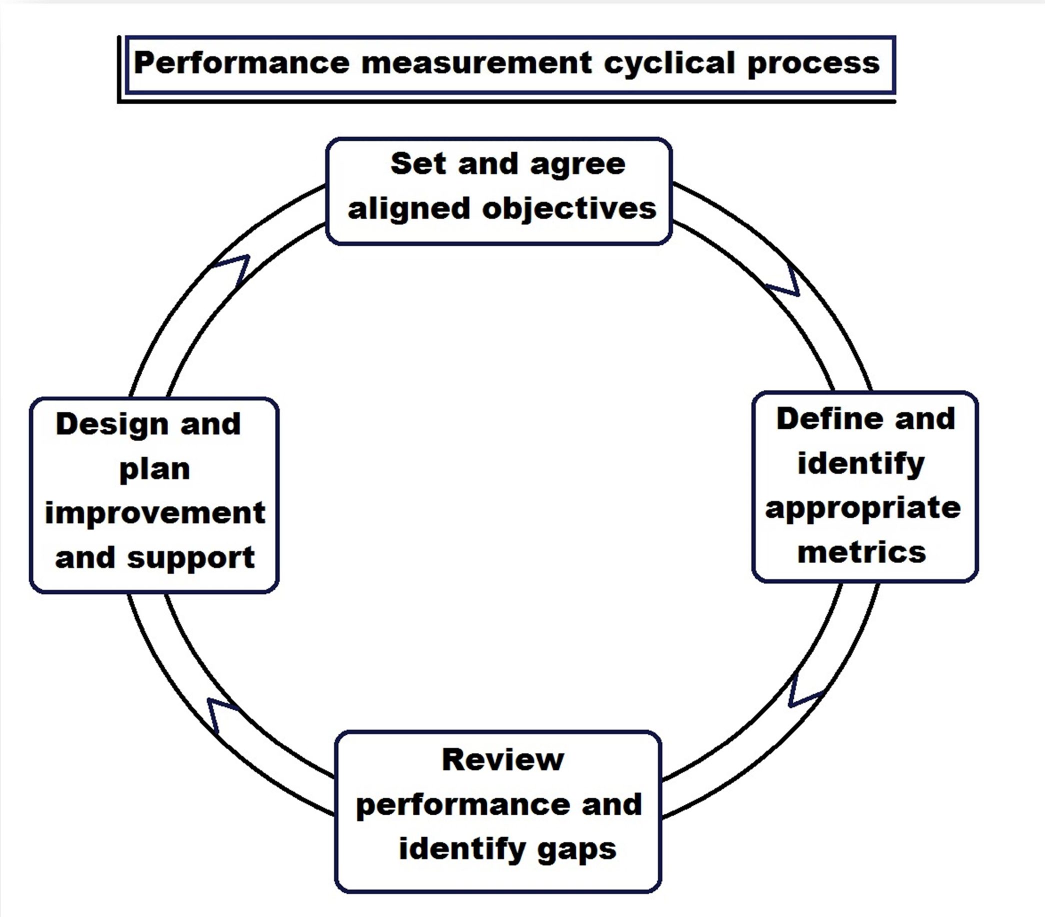

Table 44 – Performance measurement cyclical process

Once goals, which have to be aligned with the organizational objectives, have been set and agreed between managers and employees, for instance by means of the SMART method, the second stage of the process should be directed towards the identification of the metrics and the measurement system by means of which the individuals' actual output will be assessed vis-à-vis the pre-set goals.

When results cannot naturally and immediately quantitatively be measured, the method which needs to be adopted is the so-called "outcome metrics." The outcome metrics approach, very practically and pragmatically, consists in determining and identifying the most appropriate and effective way to assess each identified goal. Once an objective has been set, the outcome metrics approach aim at ensuring that an appropriate measurement system can be identified by simply answering the question: what has to be measured to determine whether this objective will be attained (DTI, 2008).

Indeed, it is not clearly just a problem of "what" has to be measured, but also of "how" the identified "what" has to be measured and by means of what objective scale. Before setting objectives, hence, managers should be sure that appropriate and sustainable metrics have been identified on the basis of a reliable measurement scale. Sometimes measuring goals may reveal to be an even harder-than-expected feat to achieve; for instance, because objectives have not been set and agreed according to the SMART approach or because goals are actually inconsistent with, or not critical to, the organizational success (albeit in the latter case the problem has clearly more far-reaching consequences than just those associated with measurement).

For effective the outcome metrics approach is, however, it is also very demanding. This should not actually come as a surprise; after all, it is applied to all of those cases in which performance cannot promptly, quantitatively be measured, that is, in those cases in which measuring results reveals to be particularly tricky.

In order to be effectively and consistently designed and implemented an outcome metrics system requires first and foremost that driver metrics, that is, all of those factors which actually have an impact on the achievement of the identified goals, are clearly identified (DTI, 2008).

A good approach to this method could be that to hold a brainstorming session directly with the employee(s) concerned in order to write a list of drivers and subsequently deciding which, amongst these, are actually the most relevant and could have the greatest impact on goals achievement (DTI, 2008).

This method will enable employers to more effectively implement the performance management process in place within their organizations. The brainstorming session in fact will represent a great opportunity for managers and individuals to communicate and to constructively discuss one of the most important aspects of individuals' work, namely its scope. This will also surely enable employees to have clearer ideas about their role and the importance of their contribution to the attainment of the business' objectives.

Employees will thus not only gain awareness of the importance of their work, but also of the circumstance that their organization is expected that their contribution will have an impact on the overall organizational performance and that this is one of the most important reasons, arguably the only important reason, for managers measuring their performance.

The third stage of any performance measurement system should be directed towards the review and analysis of performance in order to identify, by means of the metrics system which has been devised, whether any gap between desired performance and achieved results actually exists.

The fourth and final stage will be concerned with identifying and agreeing with the individuals concerned the type of support, training and coaching needs necessary to bridge the eventually emerged gap.

The process, as anticipated above, has to be intended as a cyclical one, that is, as a process which has to be constantly executed by managers and individuals and which has to be restarted anew once objectives have been achieved or amended.

However, not everything can be measured according to the literal meaning of the verb, it is said that there was a sign hanging in a wall of Albert Einstein office saying: "Not everything that counts can be counted, and not everything that can be counted counts."

In order to mitigate and possibly completely overcome the problems usually associated with measuring performance, which typically occur in those cases in which performance is expressed by activities which cannot immediately, quantitatively be measured, making a clear distinction between the two forms of possible results: output and outcome, will surely help.

Whilst the output is the component of a task result which can be immediately represented and expressed by a quantitative measure, outcome is the result of a job or task which, although producing and generating visible effects and results, cannot quantitatively be measured (Armstrong, 2006). This distinction is, indeed, of paramount importance and should be duly considered throughout the process of defining and assessing objectives and performance.

Many tasks and activities produce results which are not quantifiable; nonetheless, they undeniably produce results, or rather, as we have defined these, outcomes.

Outcomes are indeed assessable and the best way to measure these is to compare the results actually produced against those previously set, agreed and expected. Outcomes will clearly be identified in qualitative rather than quantitative terms, as could be the case of determining a competency level which needs to be attained (Armstrong, 2006), the improvement of an internal process or procedure, or the achievement of any given quality level of service.

When determining and agreeing objectives with individuals, therefore, it is important not only to identify compelling goals enabling the organization to achieve its objectives, but also to clearly identify how the attainment of those goals will be assessed and measured.

In all of those cases in which we take into consideration the outcome, that is, the actions whose produced results cannot quantitatively be measured, what managers should clearly identify is not the type of unit most suitable to measure results, but which outcome the actions should actually produce or what essentially should these actions cause to happen. Of course those expectations have to be agreed with and clearly understood by individuals in order to avert that what a manager is expected to happen could be misinterpreted by the employees. Differently, employees could go towards the wrong direction persuaded that this will enable them to successfully attain their objectives, pointlessly wasting their energies and efforts.

Notwithstanding, defining what the output has to be and what a job or task is expected to yield is not enough; managers should also determine the extent of the attainment of each target. More precisely, it should also be determined and agreed between managers and employees in which cases and circumstances, or what should happen in order to, the expected output or targets be deemed to have been met, exceeded or eventually not attained at all.

As properly suggested by Armstrong (2006), the attainment of an objective could also be represented, for example, by the satisfactory completion of a task or project, but also in this case a definition and explanation of what it is intended for "satisfactory" needs to be clearly agreed from the outset.

Whatever the case, when setting objectives, especially when they are expressed and agreed in the form of outcome, a clear definition of the criteria used to measure results is of pivotal importance. Things do not work differently when in the performance assessment process also input and behaviour come to play. Also in this case in fact a clear definition of expected behaviour needs to be provided in addition to the description of examples of what good behaviour and possibly bad behaviour are considered to be within an organization and of how these will be assessed.

When assessing inputs, the reference here is to the knowledge and set of skills and competencies gained by individuals, the competency frameworks and statements of core values available within organizations will clearly turn to be particularly useful (Armstrong, 2006). In this case the "metrics" against which to measure the effectiveness and consistency of the attained results could be devised considering the standards included in these documents.

It could be concluded, as suggested by the CIPD (2011), that in order to organizations effectively and properly manage performance, these need to thoroughly inform and make aware individuals of the basis and principles on which their performance will be measured. To inspire integrity, sense of belonging and ultimately engagement within the organization the measures identified to assess performance should be transparent and applied fairly across the business.

Ideally, employers should resort to a mix of individual and team assessment methods and use a set of measures relevant to both input and output (CIPD, 2011).

Performance measurement, nonetheless, should not be completely considered as substitute for analysis and judgment. In order to find out what actually did not work properly and why individuals did not achieve their goals, for instance, a thorough and detailed analysis of the means, resources and procedures which were actually used would clearly be required; "What gets measured gets done, and what gets recognised, gets done best" (Oregon Benchmarks).

Performance management

The concept of performance management is strictly associated with an employer, or rather, its management ability not only to control performance, but first and foremost to encourage and foster it within the workplace. Whereas the meaning of management is relatively easier to explain and more promptly identifiable; the concept of performance, in the light of the different ways it has been defined and formulated over time, leaves grounds to different interpretations.

The different and numerous definitions of performance developed so far can essentially be classified into three main groupings, which associate performance with either outcome, behaviour or a mix of them.

Advocates of the identification of performance with individual outcome aver that performance is what an individual produces and can be hence identified with an employee past results, achievements and feats. In contrast, supporters of the idea of performance as behaviour maintain that performance cannot be assessed on the basis of employee results because these could be affected by external factors, that is, factors which are not under individual direct control. Performance should consequently be intended as the method, way or approach used by individuals when performing their tasks and working activities, which are all under their full direct control.

These two contrasting definitions of performance are actually recalling the concepts of performance-rated and competency related pay. The former essentially determining pay and pay increases on the basis of past results and outcome, the latter associating pay decisions with the way things are done thanks to individual capabilities, competencies and skills. It seems to assist once again to the struggle between the "what" and the "how."

Even though individuals should approach their tasks and working activities in a very good way, final results cannot be really overlooked by both employers and managers. The way things are done definitely counts, but when we are looking at performance outcome can actually hardly be neglected. Brumbach (1998), therefore, suggested a definition of performance which takes into duly consideration both individual past results and behaviour, the third grouping of definitions; which is actually recalling the concept of contribution pay, that is, a pay management approach according to which both past performance and competencies are taken into consideration.

In the very self-explanatory Brumbach's words "behaviours emanate from the performer and transform performance from abstraction to action" as such "behaviours are also outcomes in their own right."

To the extent of performance management definition, performance has therefore to be identified as a combination of actions and results. More in particular, by means of the performance management process, amongst the other things, managers have to identify what output individuals are able to produce by means of their behaviour and agree, where necessary, with individuals how they have to adjust their behaviour in order to produce the desired and expected output.

Factors affecting performance

Albeit the concept of performance management does not pose considerable problems in terms of rhetoric and definition, by reason of the different organizational aspects influencing it, effective performance management is likely to reveal very difficult to implement in practice.

In general, although strictly associated the one with the other, there are two different dimensions affecting individual performance:

- *The exogenous factor* - associated with the workplace features,
- *The endogenous dimension* – linked to the individual character and feelings.

On the one hand individual performance is very likely to be affected by corporate culture, management integrity and the leadership style to which managers have recourse to, on the other hand employee performance is influenced by the degree of motivation, engagement and individual perception of the organizational climate. Indeed, the latter grouping of variable may be sensibly and strictly influenced by the variables included into the other grouping.

Individuals are likely to perform at their best and go the extra mile only when they feel at ease and comfortable within the business. This occurs when employees are not distracted from other events or elements, which impacting their day-to-day existence within the business cause these to focus on how to carry on and cope with difficulties within the workplace, rather than on how to perform their working activities and come up with innovative and valid approaches to more effectually carry out their tasks.

For mundane it might appear to be, managers should constantly consider that Maslow's (1954) hierarchy of needs is still influencing individual perceptions and behaviour. Individuals will never seek self-fulfilment whether these still suffer from low self-esteem. Discretionary behaviour will never occur as long as individuals do not find the adequate working conditions and are not respected, listened at and guided by their managers.

Performance management, by establishing a continued and steady relationship and open communication process between employees and their managers, can definitely help organizations to attain satisfactory level of performance.

Performance management and pay management

One of the issues which employers and reward managers have to face from the outset, when making decisions about the introduction of a performance management process, is determining what type of link, if any, has to be established between performance management and pay management.

There are, indeed, two prevailing and opposite views about the way to address the conundrum. These are essentially based and diverge according to the dissimilar founding principle underpinning the type of performance management system or process which an employer wants to introduce. More in particular a direct link between pay and performance management is identified or otherwise according to the circumstance that performance management is considered development driven or reward driven (Torrington et al, 2008).

Those who back the idea that pay decisions have to be based on performance consider necessary to carry out individual performance assessments. This usually requires the development of a formula on the basis of which individual ratings are identified and pay decisions made accordingly. Advocates of the idea of performance management as a process aiming at favouring a constant open communication and dialogue between managers and employees, in order these to discuss the way the current activities are unfolding and progressing and agree future development and training needs, suggest separating performance management from pay decision making.

As we will see later, the two processes are not necessarily conflicting and a combination of both of them could actually be used. Performance appraisals, held with the intent of discussing the reward aspect, could be kept separated from the performance management process, where employees and managers would discuss and agree only about the measures concerning individual development. This approach, usually referred to as *decoupling*, can reveal to be particularly effective for those organizations aiming at fostering productivity and boosting performance in that the exercise of making pay decisions without reference to any form of performance assessment is very likely to reveal trickier to execute in practice. First and foremost managers could find it difficult identifying sustainable and objective grounds to support their decisions; and, essentially as a consequence of that, because such an approach risks being perceived as biased and unfair by the employees.

Integrity and consistency, as usual, are paramount. Business with a performance-related pay system in place should not a priori avoid establishing a direct link between pay decisions and performance; as we have seen, decoupling will enable these employers to also care with individual development. Similarly, companies where competency-related pay programmes have been developed should not introduce performance appraisal systems whose intent is just that to asses, usually on an annual basis, individual performance and make pay decisions accordingly. Employers wanting to get the message across that they want to encourage individual development, whilst fostering individual performance and productivity, should definitely introduce a programme whose mechanism is based on a double-channel, that is, performance appraisal for making and discussing pay decisions and performance management for agreeing and planning individual development and growth. This process can reveal to be rather demanding and time consuming, but the required resources will be well-worth the efforts and would definitely pay off in the end.

Financial reward to support sustained performance

Albeit cash may not reveal to be an effective motivator in the mid- to long-term, it can surely effectively help employers to support and reinforce organizational values, that is, corporate culture and the practices and policies developed on the basis of these. Indeed, financial reward can reveal to be a powerful communicator and as such enable employers to make individuals understand what the employers are expected from them both in terms of performance and behaviour. Consistency and integrity are once again of paramount importance. Whether financial reward would not be managed with fairness and objectivity the drawbacks are likely to be severe and once triggered difficult to manage and settle.

As suggested by Armstrong (2010), financial rewards can also enable employers to make individuals understand how they value and consider important sustained performance and the need to improve it over time.

It can be argued that as long as individual performance improves also the overall business performance should. Despite the lack of empirical studies supporting this assumption, whether it is assumed that individual targets are identified by managers in order to enable employers to attain their objectives, the consequence should actually be that if individuals attain their objectives also the organization does. This reasoning is actually based on the idea that performance and target achievement are at least somewhat of overlapping the one with the other. This is absolutely acceptable, it would not make any practical sense in fact thinking of sustained and improved performance whether this would not be associated with the attainment of practical objectives enabling individuals to achieve their pre-identified goals and the business its strategy.

Performance management and performance appraisal

According to Hibberd (2011), performance appraisal after dismissing people is the task managers detest to carry out the most. Many managers in actual fact consider it as a waste of time, at best and a process hampering performance, rather than improving it, at worst. Hibberd (2011) also suggests that a large number of managers, for a whole range of reasons, are to put it mildly ill at ease during appraisals meetings insofar as often cancelling these on account of other more urgent obligations.

In general, the reasons for managers feeling uncomfortable during appraisal reviews are linked to the need for them to justify their assessment and ratings with practical examples and to their lack of skills to effectively perform, and of time to properly prepare for, the meetings. Furthermore, appraisal reviews are supposed to put managers under pressure because of the influence these exercise on the future career prospect of every employee concerned.

Another motive for managers actually disliking to hold appraisal meetings is associated with the link organizations establish between it and pay decisions and for the role of "assessors or judge" (Torrington, 2008) managers have to play in such circumstances.

All in all, it can be concluded that, for a variety of reasons, if managers would have the latitude to decide whether to hold appraisal meetings or otherwise, many of these would gladly decline. The fundamental question arising at this point is: "can organizations actually avoid holding appraisal meetings?" Yet, "can eventually appraisal be considered as a stand-alone process or should it rather be considered part of a more systematic and comprehensive process?"

In order to provide a consistent answer to these questions it is necessary first of all to define performance appraisal and subsequently identify the dissimilarities existing between this and performance management.

Despite a remarkable difference between the two processes does actually exist, some employers, misinterpreting the meaning and scope of each of them, develop performance appraisal systems assuming to have performance management processes in place; misunderstanding which is very unlikely to produce truly effective and valuable results in practice.

Performance appraisal can be broadly considered as a process aiming at assessing and rating (Armstrong, 2006) or reviewing (Torrington et al, 2008) employees' performance.

Appraisal is carried out by managers, usually annually, whilst the design of the system and the documentation habitually filled by managers during the performance review meetings is prepared by the organization's HR function. Since performance appraisal is typically associated with pay management, this is the occasion in which managers are supposed to play the role of judge, accounting for the process to be deemed as a top-down process.

Performance management, as anticipated in the preceding paragraph, is considered as a process enabling managers to constantly stay in contact with their direct reports in order to clarify and eventually modify, according to the business needs and organizational development changes, mutual expectations and putting managers in the position to play the role of employees coach and guide, rather than of judge (Longo, 2011c). As maintained by Clark (2005), performance management aims at establishing "a framework in which performance by human resources can be directed, monitored, motivated and refined, and that the link in the cycle can be audited." By extension, performance management can be basically considered as a forward-looking process, in contrast with performance appraisal which represents a retrospective-based system. In pay management terms, performance management is to competency-related pay as performance appraisal is to performance-related pay.

The distinctive feature of performance management and performance appraisal emerged so far is then linked first and foremost to their different nature: performance appraisal is devised as a system, whereas performance management is intended as a process. Moreover, whilst performance appraisal is episodic, usually carried out once a year on occasion of the annual performance review meeting, performance management is intended to establish a constant link between managers and individuals. Direct consequence of this is that performance management actually aims at building between managers and employees a relationship based on mutual respect, trust and understanding, whilst performance appraisal is essentially based on a top-down relationship (Longo, 2011c).

As discussed earlier, performance management is forward-looking; its aim is in fact to coach and contribute to individual development and growth. By contrast, performance appraisal can be considered as a retrospective journey through an individual previous working year, where managers, very often perfunctorily, "judge" the performance of their staff. Whereas performance management is, hence, based on the concept of "management by agreement or contract", performance appraisal is based on the concept of "management by command" (Armstrong, 2006). Yet, whilst performance management is intended to establish and nurture a constant relationship between managers and individuals, performance appraisal is based on approaches designed and developed by the HR function, whose hard documentation is all too often destined to be forgotten in some remote organization's archive.

Performance management, differently from performance appraisal, ultimately aims at combining individual and organizational needs and objectives and to find a common point where these two different needs can meet.

As suggested by Armstrong and Baron (2004), performance management has to be intended as a means aiming at helping managers determining and setting the objectives that the employer expects individuals to attain, providing people with what it takes to achieve those objectives (in terms of development) and influencing individuals actions in order these to behave consistently with the organizational culture and values.

Being associated with the attainment of broader and mid- to long-run goals, performance management can clearly be considered strategic, in contrast to performance appraisal which is concerned only with short-run goals (CIPD, 2011). Yet, whereas performance management is embracing a whole range of activities aiming at improving the overall organizational performance, insofar as it can definitely be considered holistic, performance appraisal is only concerned with individual performance and as such represents a distinct system rather than an integrated process.

As warned by the CIPD (2011), organizations within which are performed annual appraisal reviews only cannot actually claim to have a performance management process in place in that performance appraisal could basically be considered as a component, or rather, one of the tools of performance management. Carried out in isolation, performance appraisal is likely to produce no effects at all and to also be considered pointless and useless by both managers and staff who can perceive it, at best, just as a mere "administrative exercise" (Torrington et al, 2008) and, at worst, as a "dishonest annual ritual" (Armstrong and Murlis, 1998).

To accrue staff's negative perception of performance appraisal also contributes the lack of clarity very often associated with the purpose it actually aims at achieving (Torrington et al. 2008). Performance appraisal can potentially focus on development, reward, motivation and good potentials' and poor performers' identification. More often than not, however, performance appraisal turns to reveal in practice an ineffective tool just because it is expected to cover too many areas, making it difficult to find out for employees and sometimes for managers as well its final truly aim.

More unclear and uncertain appears sometimes to be the relationship between performance management, performance appraisal and pay. Whereas a clearer connection can be identified between pay and performance appraisal systems, more controversial appears to be the identification of a clear link between performance management and pay.

Performance appraisal systems are essentially mainly used to help managers to make decisions on salary increases, bonuses and, more in general, to grant employees other forms of financial incentives. Although it might be perceived negatively by the same managers, it is in fact in this occasion that they play the role of judges, there are cases in which holding performance appraisal meetings can actually pay off. A study of the Australian Workplace Industrial Relations carried out by Brown and Heywood (2005) revealed that for non-manual workers performance appraisal was more likely and effectively used when individuals were expected to have a shorter tenure. The same Authors consider and to some extent justify, employer resort to performance appraisal, in that much more appropriate and suitable to the circumstances, in those cases in which deferred rewards such as promotions are very unlikely to occur. Enabling employers to promptly pay performance–related rewards with reference to shorter spells of time, performance appraisal can help businesses to influence staff tenure and very likely contributing to prolong its length.

Whereas employers directly link performance appraisal to pay as a matter of course, things should work differently in the case of performance management. It is in fact widespread the belief that performance management data should not be used for pay-related reasons; insofar as in the US someone has also raised concern over the possible legal actions which could derive from such a practice.

In particular in those circumstances in which performance management is extended to an organization's whole staff, the merit element of pay has been seen as exceedingly irrelevant to motivate individuals and in some cases even counterproductive in that perceived as "insulting" by employees (Torrington et al, 2008). Similar results have been achieved by a study carried out by the Institute for Employment Studies (IRS, 2001), whose findings revealed that individuals were more satisfied when systems were fostering development and promotion, rather than when having a direct impact on financial rewards only.

Although not absolutely necessary to inform contribution pay decisions, the performance management systems developed within many organizations require the inclusion of rating scales (Armstrong, 2006). This in turn can very often be the cause for the emergence of some serious problems with relation to the correct and consistent interpretation and use of the rating scale introduced within the business. In such circumstances, ad hoc training sessions provided in favour of all of the managers taking the role of appraisers, "consistency workshops", can definitely turn to be very helpful to enable these to use rating scales in a consistent and coherent way and build a "level of common understanding about rating levels" (Armstrong, 2006).

In general, businesses wanting to focus more on the developmental aspect and purpose of performance management are the more and more deciding to sensibly reduce, and even completely eliminate, the link existing between pay and performance management. However, a line of sight between performance management and reward, in its wider meaning of total reward, can definitely be established. In this case, the concept of reward should clearly encompass both the financial/tangible and non-financial/intangible forms of reward.

Within organizations which have decided to embrace this approach, performance appraisal must represent the correct and specific context within which managers discuss with their staff the financial components of reward; whereas performance management, that is, the open two-way communication process established between managers and employees, would enable these to discuss and make decisions about the non-financial aspects and components of reward.

The idea of keeping separated individual pay decisions from individual development decisions is definitely fascinating, but it risks mostly remaining a rhetorical concept, rather than a practical approach. Inasmuch as managers establish, by means of performance management, a rather tight relationship with their direct reports enabling them to know their strengths and weaknesses, their capabilities, their potential and their limits, their pay decisions will be necessarily affected by this knowledge. This has not to be actually considered as a negative feature of performance management intended as a process inspired to the idea of total reward. In terms of pay management in fact this approach would lead us to the concept of contribution-related pay, that is, an approach where decisions about individual pay are made on the basis of both past performance and potential for future growth.

The effectiveness of the overall approach is clearly relying on the organizations' management capabilities to identify and understand individual skills and potential and on the existence of an assessment tool, properly used by managers to rate individual performance, perceived as fair and equitable by employees.

In actual fact, performance rating is all too often triggering disputes and controversies in the workplace and has been traditionally deemed as "highly problematic" (Campbell et al. 1998), cause of problems in terms of validity and accuracy (London et al, 2004) and, since basically representing a form of control carried out by the employer, as more likely to hamper rather than leverage performance (Hendry et al, 2000).

The problems deriving from establishing a direct link between financial reward and performance management, however, are not just limited to the measurement aspect. Hendry et al (2000), for instance, claim that in a rapidly changing environment achieving pre-agreed objectives is becoming the more and more difficult for employees. The direct control exerted by individuals over the attainment of their own goals is often very limited, whereas it is constantly growing the relevance of the interdependency of the efforts made by different employees, not necessarily working in the same team or group.

Albeit the number of businesses linking pay to performance management is sensibly declining, there are still in the UK a relevant number of organizations tying performance management up with pay (Armstrong and Baron, 2004).

Also as regards the intangible, non-financial component of reward, as we have seen, performance management has a relevant role to play. The reference is to coaching, development, career guidance, quality of working life and growth; all aspects to which the continuous process of performance management can be absolutely devoted (Lucas et al, 2006).

Notwithstanding, some serious doubts have been raised as for the possibility that a performance management process might be effectively used, at the same time, at the two different levels of tangible and intangible rewards. Williams (2002), for instance, argues that a performance management process focusing on both aspects of reward might result weaker as regards its developmental, intangible side. More directly, Baron and Armstrong (2004) suggest that performance management should be exclusively developmental and that the reward aspect should be addressed by having recourse to a different, specific means.

As we have discussed above, however, this means could be represented by performance appraisal which, whether properly designed and managed, can reveal to be an effective, complementary tool of performance management. It can also be argued that, in order to improve the effectiveness of the overall performance management process, having crystal clear ideas about what each tool of performance management is intended to achieve will clearly help both managers and staff to welcome and appreciate the performance management process. As suggested by Armstrong and Baron (2004), resorting to an additional, specific tool as a component of the performance management process, helping managers to separately deal with the pay decision-making activity, would surely reveal to be beneficial to make the dialog between managers and employees, as for what concerns the development and growth of these, more compelling and constructive. It is indeed easy to imagine on which aspect an individual's mind would focus the more during a blended discussion; managers could be talking about growth, whereas individuals may be thinking about pay, circumstance which should be absolutely averted.

Perfomance Management and Performance Appraisal

Performance Management	Performance Appraisal
Strategic	Operational
Long-run goals	Short to mid-run goals
Forward-looking	Retrospective
Constant	Episodic
Process	System
Integrated	Disconnected
Management by agreement	Management by command
Holistic	Individualistic
Management owned	HR owned
Supple and adaptable	Rigid and inflexible
Focused on individual growth	Focused on individual mistakes and misbehaviour
Practical and effective	Bureaucratic and superficial
Quality of performance centred	Quantity of performance centred
Total reward	Financial reward

Table 45 – Performance appraisal v performance management

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PART FIVE

Employee benefits

Section XV
Flexible and voluntary benefits programmes

Introducing flexible benefits, cafeteria benefits and package compensation programmes

When employers started providing employees additional forms of compensation, that is, additional benefits besides salary, their role was considered secondary vis-à-vis that played by financial rewards insofar as being defined as "fringe benefits" (Torrington et al, 2008). Over time, however, the importance of employee benefits within any given total reward package has crept up.

Albeit organizations by means of their reward managers and professionals differently design and develop their reward philosophies and practices on the basis of the actions and behaviour they aim at encouraging, in particular during the last years, there has actually been an upward trend in employer resources allocation to benefits. In some cases, the sum of money spent by organizations for their employee benefits accounts for up to 50% of the overall reward budget, with pension schemes having a particularly remarkable impact (Torrington et al, 2008).

The relevance and worth of the benefits paid by employers to employees in kind, rather than in cash, is also different according to the different staff levels, with executives and senior managers receiving up to 30/40 percent of their reward packages in the form of benefits of different types (Smith, 2000).

Albeit, as it will be discussed later in this chapter, employers have to deploy considerable financial resources and human efforts in order to offer these benefits, more often than not, employees do not seem to really appreciate them (Torrington et al, 2008), insofar as many individuals, when prompted to give their feedback, openly express their dissatisfaction with the benefits package they receive from their employers (IRS, 2000; Thompson and Milsome, 2001).

In general, this feeling of dissatisfaction is caused by the misalignment of what individuals value the most and would hence be expected to receive from their employers in the form of benefits with what employers actually make available to them. According to Thompson and Milsome (2001), "traditional benefits" cannot be effectively used by employers to attract, retain and motivate most of the employees. Recent studies and investigations, however, have showed that in some circumstances, namely when employees are looking for a new job and in those cases in which individuals are more in general forced to tight their belts, artfully devised benefits packages can actually effectively help employers to attract quality professionals from the external environment.

It should neither be neglected nor underestimated the circumstance that benefits, being directly or indirectly associable with cash, are essentially perceived by employees as part of the financial reward component of the total reward package they receive so that their hygiene characteristic, as intended by Fredrick Hertzberg, should not be undervalued. Misalignment notwithstanding, therefore, removing from individual reward packages those elements which have a hygiene valence would surely produce detrimental effects upon employee engagement and motivation (Longo, 2011a). It is basically a form of vicious circle, despite the efforts made by organizations, employees do not appreciate the benefits their employers offer, which may then have no impact on their productivity; but whether these would be withdrawn by businesses this may cause discontent and negatively impact individual performance.

Making the business case for flexible benefits

The most effective approach organizations can have recourse to in order to employees appreciate the benefits they offer to them is to simply giving individuals the latitude to decide themselves what benefits have to be offered. Flexible benefits, cafeteria benefits or package compensations are programmes essentially designed and introduced by businesses in order to enable employees to decide, within a pre-identified set of benefits, those mostly fitting their wants and tastes (Longo, 2011a).

Flexible and cafeteria benefits plans should enable employers to suit the needs of an increasingly diverse workforce whilst keeping a cost-effective approach and avoid pointless expenses for unwanted and unused benefits (Jurkiewicz, 2000; Charrier, 2000). One of the most likely reasons for employee benefits not being appreciated by individuals is represented by the likely employer inability to offer the range of benefits meeting the needs of their varied generational workforce composition. Flexible benefits approaches should indeed enable employers to attain this objective in practice (Parry and Urwin, 2009). Different individuals have different needs and differently value rewards, so that flexible arrangements, giving the opportunity to each individual to choose the benefits he/she appreciates and values the most, can clearly help organizations to avoid offering individuals the wrong benefits. In order to attain the intended objective, however, benefits packages clearly need to contain an array of benefits including those actually meeting and matching the needs of all of the individuals and generations involved (Longo, 2011a).

Flexible and voluntary benefits programmes

Over the last years, driven by the tax regime and the healthcare system in place, flexible benefits have boomed in the US, where they are actually still well-developed and widespread (CIPD, 2010). In the UK, after a slow start in the early 2000s, flexible benefits approaches seem more recently to have captured the interest of a constantly increasing number of organizations (Torrington et al, 2008). By and large, this approach can be actually still considered as a rather typical Anglo-Saxon phenomenon. Indeed, flexible benefits programmes seem to be destined to further develop in the UK and, more in general, in those countries where the declining bargaining power of trade unions and the consequent growing focus on individually agreed reward packages with employees, are characterizing the composition side of financial reward practices (CIPD, 2010).

Albeit reward managers could find it absolutely important to introduce flexible benefits arrangements within their organization, in order to gain the required businesses' boards support, they need to show that resorting to such an approach is objectively justified and financially viable and wise (Furness, 2006).

Furness (2006) claims that the main reasons for HR professionals wanting to introduce flexible benefits schemes are to give individuals the chance to choose, to increase employee perceived value of benefits and to improve the effectiveness of organizations recruitment and retention practices. Indeed, the former two objectives would be basically pursued by employers to the benefit of employees, whereas the latter two to the benefit of themselves.

From the employee perspective, benefits are definitely seen, as they actually are, as part of their tangible reward package, whilst the latitude given to them to choose the benefits they actually want can to some extent be seen as an intangible benefit. From this point of view, it can be concluded that flexible benefits schemes offer individuals somewhat of a combination of tangible and intangible rewards. Individuals decide and have then the leeway, intangible aspect, to determine the tangible reward they want to receive. This can clearly contribute to let these perceive the value of the benefits they get as even more important than that represented by their mere intrinsic economic value. As such, benefits can possibly slightly contribute to enhance the effectiveness of organizations' recruitment and retention practices (Longo, 2011a).

In order to avert that the introduction of these arrangements may spell irreparable and inevitable disasters, when introducing flexible benefits programmes employers should take particular care with both the specific circumstances and the timing of their introduction. Putting in place flexible schemes could, for instance, turn to be detrimental in organizations where the largest part of employees receives the minimum wage or salary (Furness, 2006). Similarly, it should definitely be avoided the introduction of flexible benefits plans over Christmas in that traditionally productive of catastrophic effects. In order to ensure the prompt and timely technical support from the software provider, should it be required, the introduction of these programmes should also be averted during the period the other organizations in the same geographical area habitually introduce these arrangements (Johnson, 2006).

Hutchinson (2006) suggests that a feasibility study should be better carried out before designing and implementing a scheme; the main aim of this investigation being to find out whether this approach is consistent and appropriate for the business and to determine the most suitable type of programme to be eventually introduced. Ultimately, the study should essentially aim at gathering the information necessary to identify which factors can positively and negatively impact the scheme introduction and what savings can be attained by its introduction and implementation.

The need for flexible benefits very much also depends upon, and is influenced by, the economic and social models typical of the different areas existing across the globe (Childs, 2010). In countries where strong social services and state pension provisions are in place, for instance, the need for flexible benefits approaches may be perceived as much less important vis-à-vis that of countries where social provisions are scarce and poor. Yet, according to Childs (2010), in countries like Russia, where life expectancy is low and the government offers limited health provisions, individuals do show a considerable interest in health and medical benefits much more than they do in pension schemes.

Multinational organizations designing and implementing the same arrangements across the different countries where they are operating are likely to experience miserable failure in most of the cases. The array of benefits made available to employees clearly needs to be chosen according to the different geographical social characteristics.

Indeed, not only the social factor, but also the legal framework has its importance and impact upon flexible benefits plans introduction and needs hence to be duly investigated at the outset. Businesses operating in countries where national regulations do not provide tax exceptions or a favourable treatment in favour of the organizations offering benefits to their employees, and in favour of the employees receiving the benefits themselves, would clearly find it more difficult to introduce these arrangements and find a valid and sustainable scope for their introduction.

All of these possible constraints notwithstanding, more recently, flexible benefits approaches are catching the attention and interest of a constantly growing number of organizations across a growing number of countries, regardless of their dominant tax regimes.

What flexible plans, cafeteria benefits and package compensation are

Flexible benefits approaches basically represent reward arrangements giving individuals the latitude to actively contribute to determine the composition of their own reward package. The overall reward package value is clearly determined by the employer but, within the pre-set limits, is the employee him/herself who makes decisions about the composition of his/her package and defines the balance between cash and benefits (Torrington et al, 2008).

Armstrong (2009) points out that, once employers have defined the allowance individuals can spend on benefits, individuals can choose "within benefits or between benefits". Yet, over time, employees can use their allowance to change benefits, or to change the value or quota of the benefits they already receive or opt for a combination of both of these options. Under genuine flexible benefits schemes individuals can hence either maintain their current salary whilst modifying the combination or level of benefits, or modify their salary up or down by choosing to receive less or more benefits in kind (CIPD, 2010).

Approaches to flexible benefits can be either fully flexible or partially flexible. The former approach gives individuals a wider extent of autonomy in determining and eventually changing their packages composition at regular intervals. In theory, employees could renounce to all of the available benefits in exchange for cash or sensibly increase the value of their benefits in kind in exchange for pay reduction. More often than not, however, schemes are partially flexible; in these cases employers set an array of core benefits, which are considered mandatory and cannot hence be "flexed" (Armstrong, 2009), and beside these an additional set of non-core benefits amongst which individuals have full autonomy to decide whether and in which measure to receive them. Individuals might, for instance, be subject to a pre-set number of days of holidays a year and to invest a minimum quota of their salary in the pension scheme, but thanks to cafeteria programmes they may be completely free to decide whether to benefit from, for instance, gymnasium membership or private insurance and healthcare provisions (Torrington et al, 2008).

To reduce the administrative burden usually associated with the management of these programmes, employers could introduce a third method, practically in between the fully and partially flexible approaches, which can be called "parfully" or "fulltially" flexible. Parfully or fulltially plans are essentially based on the development of a number of different pre-set groups of benefits amongst which individuals can choose the one more closely meeting their wants. However, in this case, each employee can pick the group as it stands and cannot modify its composition (Longo, 2011a).

In general, offering five to seven groups of benefits should enable employers to meet the different needs of all of the individuals working within the organizations, but this actually depends on the size of the business and on the features of its workforce. All of the identified and designed packages must clearly have exactly the same financial value and each of them should be developed in order to meet the needs of the different groups or generations coexisting within the business, do not leaving as far as possible room for disappointment. This is clearly not a straightforward feat to achieve. A bespoke package for young couples with children could, for example, be composed by childcare vouchers, access to corporate or private crèche, playschools or kindergartens, additional holiday's entitlement, and so forth. Younger people could, by contrast, possibly prefer additional cash, whilst elder worker would more likely welcome healthcare insurance and provisions or to be given the chance to buy additional years of pensionable service in exchange for a pay reduction (Torrington et al, 2008). Indeed, although these packages could reveal to be definitely attractive to each individual belonging to the different groups, adding in each group of benefits something "different", that is, something which to some extent is out of the "leitmotiv" of the group composition, could contribute to make a "parfully" scheme even more appealing to individuals. If young parents should in fact opt for a totally child-intended package, they could later feel sorry for not having also access to something more directly concerned with themselves (Longo, 2011a).

In general, as suggested by the CIPD (2010), even though it clearly depends on the different local circumstances, amongst the core benefits of a flexible scheme are usually included: pensions, holidays, life insurance and critical illness or long-term disability insurance.

"Non-core" benefits can by and large be grouped in three main categories:

- ✓ Health benefits (e.g. dental insurance);
- ✓ Financial benefits (e.g. household or holiday insurance);

Leisure, life-style benefits (gymnasium membership, childcare vouchers).

Designing and developing flexible benefits schemes

In order to design and develop consistent and effective flexible benefits schemes reward managers and professionals need first and foremost to take up a series of crucially important activities.

The first step of a structured and systematic approach to flexible benefits programmes development is represented by profiling the whole workforce (Lovewell, 2011). This activity will surely reveal to be useful both when designing the programme in order to help reward professionals determining the most appropriate benefits to be included in the cafeteria benefits catalogue and during the execution phase to help communication specialists to identify the most effective and suitable communication approach enabling them to actually catch staff's attention. On completion of this activity employees will be grouped according to elements such as the different generations to which these belongs, common tastes and wants and the possible sub groupings which could further be identified on the basis of, for instance, individual family circumstances or status, lifestyle, etc.

When designing a flexible benefits scheme, employers, with the help of reward managers, also need to determine from the outset the approach they want to adopt towards the scheme; namely: fully flexible, partially flexible or parfully flexible.

After having performed these activities reward managers have to determine, whether applicable, which benefits of the proposed package have to be considered as "core", that is, which cannot be flexed and which have to be considered "non-core" and can, by contrast, be the object of individual choice. Once "non-core" benefits have been identified, the limit to their flexibility or inflexibility also needs to be consequently determined.

In those cases in which reward managers and employers have deemed the parfully approach to flexible benefits as the most suitable method for the organization, the next activity which will need to be performed is that to design and develop, according to the findings of the workforce mapping investigation carried out previously, the different benefits groups or "menus."

At this stage, employers should also make decisions whether to state in the menus, in relation to each benefit, the equivalent economic value or otherwise. However, since publicising the specific cash value of each benefit could make individuals think that they are actually paying for it, employers may rather consider associating each benefit with a given number of points (CIPD, 2010). In this way, employees will be able to determine, asses and compare the value of the overall benefits package they receive on the basis of the total sum of points associated with their benefits, rather than on the basis of its financial value. As anticipated in the previous paragraph, regardless of the system in place, that is, cash- or points-based, the overall value of each package has to be invariably the same.

Once the scheme has been designed and drawn up, it can finally be introduced to the employees. It is of paramount importance that the scheme is fully and clearly understood by the entire workforce. To this extent, an ad hoc communication campaign is definitely advisable and will surely turn to be both useful and cost-effective. The employee profiling activity performed during the plan design stage should definitely reveal useful to help communications specialists to determine the most suitable and effective communication approach and channels as well.

As suggested by the CIPD (2010), it is also of paramount importance that employees truly understand the implications of their decisions. In order to enable these to make and amend their preferences, employers have to put in place methods making it straightforward for individuals confirming their choices and, eventually, amend them.

Businesses should also give employees detailed and clear information about the number of occasions in a year these are allowed to propose changes in their benefits package and about the time limit set to do it. Employees are habitually permitted to propose changes to the composition of their flexible benefits package once a year. However, employers can decide, as normally happens, to let individuals modifying their preferences at any time when particular events occur, for instance: marriage or divorce, birth or adoption, a relative's dead, long-term sickness absence, promotions and other such important similar events (CIPD, 2010).

For the successful implementation of a flexible benefits programme organizations should not overlook the importance of making appropriate decisions also as for what regards the format of the benefits catalogue. This type of decision is more specifically concerned with identifying the most appropriate vehicle for making available the catalogue to employees, namely paper-based or online. To this extent, employers should take into consideration that, for instance, the traditional paper format would reveal to be helpful and should better suit organizations where not everybody works on a computer, whereas this method implies higher costs for reprinting, every time a modification of the catalogue is required (CIPD, 2010).

Flexible and voluntary benefits programmes

Key factors

Albeit the phases during which flexible schemes are designed and developed are definitely important for their subsequent successful implementation, consistent and effective flexible benefits schemes also require a great deal of attention as for what actually concerns their maintenance.

Since the external environment is the more and more subject to frequent and constant changes, individual needs and preferences, which are deeply affected by those changes, are likely to change at the same pace. Social, technological, economic and even political factors can all contribute to influence employee mindset and cause individuals to differently value the same benefit over time.

Flexible benefits schemes need, by extension, to be constantly reviewed and kept up to date, with specific reference to the range and variety of the benefits offered. Whereas assessing and reviewing the preferences expressed by employees, by means of monitoring their demand, can enable reward managers and employers to make timely decisions in terms of eliminating from the catalogue the undesirable items, it could turn to definitely reveal less straightforward, on the other hand, to find out which new items eventually include. Staff's surveys, focus groups and other two-way communication channel approaches could clearly definitely help. At Aviva, for instance, before launching the "My Aviva Extras" scheme, the group HR Director held frequent web conversations with employees in order to find out which benefits they valued the most, activity which ultimately accounted for the scheme resulting in a great success.

As for the range of benefits which can be included in a flexible benefits programme, the list could really be very long. In general, the most popular benefits encompassed in flexible benefits programmes are: childcare vouchers, bike loans, mobile phones, car parking, health screening, work-related training, travel to work and luncheon vouchers (Employee Benefits, 2011). More recently, in the UK, thanks to the agreements reached by some employers with collective buying communities, also staff discounts on household bills are taking off. Organizations the like of Network Retail and Athos Origin, just to cite two cases, have by means of such agreements already offered to their staff discounts on life essentials like food and fuel (Hemsley, 2011).

One of the most important aspects, arguably the most important aspect, reward managers and professionals have to duly keep into consideration when developing and designing flexible benefits schemes is the fiscal aspect, that is, the taxation regime to which are subject the different benefits which a business is planning to include in the scheme according to the regulation currently in force in the relevant country. The benefits encompassed in the same programme in actual fact might not be all subject to the same treatment. It is also crucially important that reward managers will align with payroll specialists in order to find out which transactions can or has to be done via payroll. To this extent, seeking fiscal professional advice in some circumstances could reveal to be necessary (Longo, 2011b). Multinational organizations should be aware of these implications and should take into consideration that, for the development of financially sound flexible benefits schemes, alignment and consultation with local HR and payroll specialists is necessary.

Legal aspects

One of the legal pitfalls employers might easily fall into when launching flexible benefits programmes relates to benefits accessibility. Ensuring benefits accessibility means that all of the benefits included in the catalogue can be equally accessed by all of the individuals composing the organization's workforce. In the event a particular benefit, such as, for instance, an insurance product or healthcare provision, could not be accessed by elder staff this circumstance could be tantamount to discrimination and provide scope for discrimination claims (CIPD, 2010). Too strict legal provisions could in some cases reduce employers' flexibility when introducing parfully programmes. However, the design and introduction of bespoke and tailored packages fitting the needs of all the groups existing within an organization should account for making the arrangements legally sustainable.

When designing and developing cafeteria benefits schemes, employers should also care about the age discrimination legislation in force and remember to monitor its future possible developments. To this extent, Naftalin (2006) expresses some concerns over the legality of those practices according to which the value of benefits and loyalty payments is based on and increases with the length of service. Such a mechanism could indeed provide room for indirect age discrimination claims, which could be lodged by younger employees. Another pitfall to avoid in terms of age discrimination legislation is associated with private medical insurance. Insurance cover is in fact based on tables drawn up taking into account age groups; employers should hence ensure that these tables have been prepared by certified actuaries and that the right age ranges have been actually all included (Hutchinson, 2006).

Businesses introducing flexible benefits schemes should never neglect the importance of updating the terms and conditions of their contracts of employment accordingly. In particular, in order to avoid that employers might be obliged to continue to pay individual bills also after employment termination, it has to be clearly stated in writing that benefits provisions end with contract termination (Furness, 2006) and that in such circumstance is the employee and not the employer who will liable for the related cost associated with the benefits provision.

Flexible benefits schemes introduction might, indeed, produce far-reaching legal consequences, insofar as some of these could not even be actually expected. During the unfolding of the procedure of staff transfer from an organization to another, where the Transfer of Undertakings - Protection of Employment - (TUPE) regulations apply, for instance, benefits programmes have to be duly taken into consideration too. TUPE regulation in fact states that employees transferred from an employer to another have to receive in the new organization the same terms and conditions these received when working with the transferor (that is, the previous employer). The transferred employees have to be hence entitled by the transferee to the same benefits they were entitled to when working with the transferor (Longo, 2011b).

Employers should care about the legal aspects associated with flexible benefits schemes and should not hesitate to seek legal advice in order to avoid falling into the pitfalls associated with the establishment and management of these programmes before introducing the scheme.

Communication

As mentioned earlier, communication is of paramount importance for the successful implementation of these programmes. Individuals have to know the benefits on offer, the way the system works and the advantages it is intended to provide. Northgate-Arinso, for instance, in order to attain this objective, after having introduced a cafeteria benefits scheme, developed a series of online micro websites to explain to their employees the real significance and value of the new programme (Hemsley, 2011).

Particularly important is also the type of approach used to get the message across. The workforce profiling activity described earlier will surely turn to be very useful for the unfolding of the process. Many organizations in order to help staff to better understand the value of the benefits and of the overall reward package they offer provide individuals with total reward statements before launching the scheme (Furness, 2006). This approach has been adopted, for instance, at Panasonic Europe where in order to capture employee interest total reward statements have been used to illustrate people "what their benefits package is actually worth, alongside their basic salary" (Mills, 2011).

Identifying and electing company champions can reveal to be an additional effective way to spread information about flexible benefits schemes within the organization. Basically this approach consists in training key employees on the new benefits package mechanism in order these to explain in turn it to their department colleagues, whilst stressing the worth of the overall plan. This approach is usually very likely to work in that information is spread by people that staff know and trust (Johnson, 2006).

Waller (2006) suggests that although a "phased process of communication and implementation can ignite employee interest", today staff attention to benefits has declined and that is actually why employers are paying much more care on generating awareness amongst staff before launching a scheme.

The execution stage of a flexible benefits scheme is clearly crucially important and employers should never try to force or speed up the process, but rather use the appropriate time this phase requires to be appropriately and effectively executed. As suggested by Morgan (2010), rushing the implementation process entails rushing in turn the communication process with the likely outcome that in the end staff will not understand the value of the employer proposition.

Voluntary benefits schemes

Voluntary benefits plans have attracted much more interest in the UK in that, being their mechanism essentially based on enabling employees to buy products or services at discounted prices, well meet the UK "Green Shield Stamp mentality" (Childs, 2010).

Flexible and voluntary benefits programmes

Although both flexible and voluntary benefits schemes have the common denominator of offering employees flexibility, relevant differences between the two approaches actually do exist (Furness, 2006).

Voluntary or affinity benefits are basically represented by products and services which employees can purchase through their employers, usually at discounted prices, and which, more often than not, are not included in the individuals' taxable income. The extra perquisites, discounted products and services offered to the workforce on the basis of a voluntary scheme are therefore provided at little or no additional cost for the employer. Basically the difference between flexible benefits and voluntary benefits is represented by the circumstance that whilst in the case of a flexible benefits scheme is the employer who purchases the products or services subsequently offered to the employees, in the case of a voluntary scheme are employees who directly pay for the cost associated with the benefits (CIPD, 2010).

The products and services offered to employees under a voluntary benefits plan are, in general, paid by employees through the payroll. In this case, individuals will receive the regular salary reduced of the amount retained by the employer, with the previous consent of the employees, to pay the products or services purchased on behalf of these. This arrangement is commonly known as salary sacrifice in that employees apparently "sacrifice" part of their monthly pay to receive the desired products or services.

Voluntary benefits programmes in reality are not based on the individual sacrifice of part of their salary, their mechanism is rather more specifically based on individual trading part of their salary for products or services that they need and that, by means of the arrangements put in place by their employer, can receive at more favourable purchase price and tax treatment.

This approach can indeed provide benefits to employees not only in terms of favourable prices, but also in terms of tax advantages. Purchases made under these schemes in fact entitle individuals to receive a favourable tax and National Insurance (NI) treatment. Employers too can actually benefit from this approach in terms of savings; in the UK, for instance, organizations can attain financial benefits of up to 12.8% on National Insurance.

Flexible and voluntary benefits are then different the ones from the others, but they can effectually be used on a complementary basis. Businesses offering flexible benefits in fact very often also propose employees, in combination with these, voluntary benefits schemes. In some cases, employers also resort to voluntary benefits schemes in order to explore the degree of their workforce interest towards this kind of approach and to investigate which benefits would be mostly appreciated by their staff (CIPD, 2010).

Integrating voluntary with flexible benefits schemes will additionally enable employers to have all of their benefits delivered from one place (Cripps, 2006), basically in line with the idea behind the "one stop shop" approach. This can actually reveal to be particularly useful for employers in order to gain a better knowledge and understanding of their workforce tastes and preferences.

Both voluntary and flexible benefits schemes can clearly help employers to achieve their strategies and business objectives, but not of their own. Flexible and voluntary benefits plans are very likely to be successful whether developed and implemented as part of a consistent and coherent total reward approach. As such, they can provide further and additional momentum and variety to the tangible side of the overall total reward quadrant. Notwithstanding, if not integrated in a broader and well-designed total reward package, these schemes are unlikely to effectively help employers to achieve their business objectives and endorse the desired staff behaviour (Longo, 2011a).

Whether accurately devised, additional contributions to an existing pension scheme too can be offered to employees in the salary trade form in order to individuals benefit of tax and NI relief (Employee Benefits, 2011).

Also in the case of voluntary benefits, reward managers should never neglect to align with employment law specialists. In order to avoid employers having to pay dismissed and resigned staff bills, contracts of employment have to be integrated with a caveat clearly stating that benefits provisions end with contracts' termination (Furness, 2006). This is actually absolutely important both in those cases in which a benefit is provided to individuals on loan and when a voluntary benefit is provided with a salary sacrifice.

Resources requirement analysis

Designing, developing, implementing and maintaining flexible and voluntary benefits schemes is unquestionably fairly demanding. The process necessary to put in place a new plan habitually requires between 3 and 12 months, depending on the circumstances (Furness, 2006). It is, by extension, absolutely comprehensible that employers planning to introduce these schemes want to be sure and ensure that these will be valued and appreciated by their staff. Even more so, during periods when businesses are experiencing and are prompted to face economic hardships. Under these circumstances, attaining an adequate ROI on every expense incurred by a firm becomes absolutely mandatory. However, developing successful schemes worth the resources and efforts required to introduce them and avoid that these might end in failure definitely poses a major and serious challenge to employers and reward managers as well (Lovewell, 2011).

The idea of introducing and managing well designed flexible benefits or cafeteria benefits schemes actually still sounds quite attractive to many organizations. However, the flip side of resorting to this approach is represented by the circumstance that these schemes require a good deal of efforts and resources in order to be designed, implemented and kept up to date. As suggested by Furnes (2006), "executive boards normally have two main reservations about flex: administration and cost." However, findings of the "Employee Benefits - Towers Watson Flexible Benefits Research 2010" revealed a remarkable difference on the appreciation of the costs associated with flexible benefits schemes implementation between respondents who were not offering flexible benefits schemes to their staff and those who were planning to do it. The rate of respondents citing cost as the major obstacle to flexible benefits schemes implementation was in fact of 76% amongst those who did not run any flexible benefits programme, whereas a less significant 56% of respondents with a plan to introduce flexible benefits schemes cited cost as a main barrier (Barton, 2010).

In addition to direct cost, running these schemes also involves and requires a remarkable administrative work. Staff's preferences not only need to be individually managed in the first instance, but also on occasion of all of the subsequent amendments. By and large, organizations are used to review their benefits catalogues once a year, but reportedly this is not enough. Findings of a survey carried out over 1,300 Generation Y employees at Capgemini UK revealed that surveyed individuals do not actually consider as "flexible" a scheme enabling them to change their choices only once a year. Brown (2011) suggests that firms should, therefore, introduce flexible schemes enabling individuals to add or change their perquisites at any time. However, whether on the one hand such approach would clearly help organizations to make schemes much more attractive to employees, on the other hand this result will clearly be achieved for a price.

In order to device tax sound programmes, in addition to the administrative work carried out internally, as likely as not, organizations might also need resorting to external fiscal consultancies. Notwithstanding, amongst the different costs associated with flexible benefits schemes design and implementation, this is not really the cost employers should eventually try and aim to cut. Although this type of cost will contribute to increase the overall costs associated with these programmes development it will certainly reveal a good investment for the successful implementation of the scheme. The usually frequent changes in fiscal regulations definitely need to be appropriately monitored and duly tackled in order to update programmes accordingly, eventually take advantages of the opportunities offered and avert the risks posed by fiscal law development. Consultancies help could reveal to be crucial and well-worth the expense so that organizations do not having this type of competency internally, should not hesitate to seek external advice and bear the required cost.

Still in terms of costs and resources, it should be considered that things actually work differently for benefits provided by means of salary sacrifice. In these cases, as suggested by Eaton (2006), a "well-run programme should be cost neutral, allowing you to spend more money on your employees than on administration." In whatever case, employers should strive to develop programmes enabling them to at least balance the management costs related to the benefits offered by the business under flexible benefits schemes and the benefits associated with perquisites offered by means of salary trade.

During the last decade, the impact of the costs linked to cafeteria benefits schemes implementation has been sensibly curbed thanks to the technological advancements, which have actually also contributed to provide momentum to the cafeteria benefits plans diffusion. Whilst in the early 1990s these schemes caused employers severe headaches for the administrative, manual workload they required, nowadays, a large part of these tasks have become computer-based (Cripps, 2006). Online and self-service systems in particular have actually sensibly helped employers to reduce the impact of the administrative burden associated with these schemes introduction and implementation.

The overall cost of cafeteria benefits programmes implementation largely depends on some particularly relevant variables:

- Complexity of the scheme,
- Business size,
- Number of the benefits planned to be included in the programme,
- Cost of the external provider and consultancy support, where applicable (Barton, 2010).

According to the level and breadth of internal technical knowledge and expertise, employers can clearly decide either to totally design programmes internally or opt to seek external advice or for having recourse to a combination of the two approaches.

In those cases in which employers decide to benefit of external support there are indeed a series of costs which they have to be ready to pay: consultancy fees for planning (one-off), development and communication of the scheme (on a daily rate basis); consultancy cost for the system and service implementation (one-off) and technology licence (annual fees). On the other hand the cost associated with designing and implementing the overall system is not linked to any variable and will then remain in any case invariably the same (Barton, 2010).

Identifying and clearly agreeing with the external provider the scope of the project is definitely key. To this extent Waller (2010) warns of the risks associated with: system customisation, data work, interfaces and other types of issues likely to arise as regards the identification of the real objectives of the programme.

Agreeing a fixed price with providers will surely enable employers to avoid later disappointment and waste of money and time. Employers' good understanding of the way they want the scheme to work and being operated should account for them being less likely to face undesirable and unexpected problems along the way. Before contacting external providers, employers should better gain an acceptable knowledge and understanding of the way this type of schemes are developed and operated; this will certainly enable them to better interact with the external provider during the pre-design phase and avoid subsequent displeasure.

Staff data administration represents an additional important and costly factor of flexible and cafeteria benefits plans development and needs, hence, to be duly tackled during the development phase. In order to curb the cost associated with this aspect, businesses should establish a direct and firm link between HR and payroll database and staff benefits communication portal (Morris, 2010).

The remarkable impact of the costs associated with cafeteria or flexible benefits schemes development and implementation is rather evident, insofar as those who hold the organization's purse strings become very often extremely tentative, when prompted to make decisions on the introduction of these schemes. However, devising tax-efficient plans including benefits offered by means of salary trade or sacrifice can definitely help organizations to cushion the blow. This approach will indeed enable both employers and employees to avail themselves of the fiscal advantages which can be attained in terms of National Insurance contributions. Employers will benefit of a NI contribution decrease as a consequence of the reduced amount of the gross salary paid to the employees; whereas employees would pay a reduced amount of National Insurance since they have not to pay any NI contribution on the fraction of salary sacrificed (Barton, 2010).

How (2010) avers that all actually depends on the way businesses shape their schemes. Employers should, at best, be able to save some money and, at worst, be able to finance the overall scheme by National Insurance savings.

All in all, flexible and cafeteria benefits schemes can be considered rather demanding complex systems. During their development and implementation phases, unexpected events might always happen. As maintained by Morgan (2010), hence, employers should be always prepared to "expect the unexpected" and in order to be in the best position to cope with the issues eventually arising along the way, be prepared to allow extra budged and extra time whether required.

As discussed earlier in this paragraph, the remarkable impact of cost on flexible benefits schemes design and implementation has been recently curbed by means of the latest technological developments. Notwithstanding, these plans keep remain very arduous, and only savvy and tax-efficient devised schemes can actually enable employers to sensibly reduce the impact of the costs associated with their introduction. The Efforts and resources necessary to design, develop and implement flexible benefits schemes have ultimately to be weighted duly taking into consideration the objectives of the scheme and what it is actually intended to bring to the organization. Whether the attainment of these objectives can genuinely help the business to achieve its reward strategy and hence the overall HR and business strategies, the introduction of the scheme will definitely be well-worth the efforts it requires. After all, it should not be forgotten that flexible benefits schemes have to be considered as part of total reward packages and not just as per se programmes or, even worse, as a fad or something to develop and implement just because competitors do. Should that be the case, in order to avoid an inevitable failure and a massive waste of money, employers should better restrain to make plans to introduce these programmes.

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PART SIX

Rewarding executives and teams

Section XVI
Executives and teams

Director and executive reward

Introduction

Inasmuch as compensation and reward in general represents one of the most delicate aspects which have to be managed within an organization, setting directors and executive pay in particular constitutes an even more difficult task employers have to deal with. Indeed, decisions related to both aspects are normally affected by the endogenous and exogenous environment and can potentially produce internal repercussions in terms of both pay fairness and retention and attraction policies effectiveness. Notwithstanding, executive pay is potentially more likely to gain public visibility, attract media interest and eventually bad press; all undesirable events which would certainly blacken organizations name and reputation.

Directors' and executives' pay decisions should be made by employers taking into account the ideas expressed by a few relevant theories and the guidelines set by the remuneration committees. Amidst the theories which can actually be considered appropriate and significant for the executive pay decision-making process, the most important are the agency and the tournament theories; even though this does not necessarily entail that in modern times these theories are undoubtedly the most conclusive and useful in practice.

The Agency Theory

The agency theory is underpinned by the assumption that since employers, or business owners, have no direct grip on the way executives practically manage their business, in order to avoid that these might be tempted to make personal profit or take personal advantage by their position to the detriment of shareholders interest, employers should pay them larger amount of money. In practice, companies' shareholders should grant to executives even greater sums of money in order to these produce better results and boost business performance. This approach, called "incentive alignment", is based on the idea that employers are willing to pay more to executives because they are expected these to contribute more to organizational success.

As suggested by Perkins and Hendry (2005), this theory essentially aims at introducing somewhat of a variable pay scheme based on the performance-related pay mechanism. On the other hand, however, this approach to executive pay may also encourage risk-taking as it has actually mostly been the case, for instance, of financial and banking institutions (Bruce et al, 2005). Indeed, agency theory notwithstanding, it can hardly be averred that nowadays employers' decision on executive pay are made on the basis of their concern for executives taking advantage of their position for personal benefit. Most likely, employers are keen to pay executives more generous reward packages in order to these enabling the firm to actually gain competitive edge.

The Tournament Theory

The tournament theory, to some extent, completes and reinforces the agency theory adding to this an element of "relativity." According to this theory, executives have to be rewarded for the position they reach in the final rank, after having jousting in the market league. Also in this case, hence, a direct cause-effect relationship between performance and pay can clearly be identified. Executives, however, according to this theory, should be rewarded in the light of the final place in the market competition they attain vis-à-vis the other participants and not according to their level of performance considered in absolute terms (Conyon et al, 2001).

Remuneration Committees

The role of remuneration committees is very much associated with governance. Executives, as all of the other employees of any organization, are paid according to what it has been agreed and showed in their contract of employment; its content and the guidelines on the way this has to be prepared, notwithstanding, have to be clearly and consistently set beforehand.

In the United Kingdom the need for all companies having a remuneration committee emerged for the first time from the Cadbury Report (Cadbury, 1992). The main recommendations made by the study, sponsored by the Stock Exchange, were that committees should have been predominantly formed by non-executive directors and that remuneration committees should have unveiled in the corporate annual reports details about the executive directors' pay.

Subsequently, findings of the investigation funded by the Confederation of British Industry (CBI) and carried out by the Greenbury Committee (Greenbury, 1995), suggested some other recommendations, in addition to those previously emerged from the Cadbury Report.

More in particular, the Greenbury Committee recommended that:

- Remuneration committees should have been exclusively formed by independent directors,

- Guidelines on executive remunerations should have been included into the Stock Exchange particulars,
- In the companies' annual report a specific section should have been devoted to remuneration committees in order to these disclose details about executive directors' contract of employment, pay and benefits.

Three years later, an additional similar research was carried out by the Hampel Committee under the sponsorship of the London Stock Exchange, the CBI, the Institute of Directors (IoD), the Consultative Committee of Accountancy Bodies, the National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI). On the subject of executive remuneration, the Hampel Committee recommended remunerations committees not to refer to external surveys or inter-company benchmarking to make executive pay decisions, but rather to come up with practices fitting the specific company's circumstances (Hampel, 1998).

As clearly emerged from all of the recommendations made in the above-mentioned reports, the role of remuneration committees is hence that to design and develop the most suitable reward practices for the company's executive directors and non-directors and identify for each of them the appropriate total reward package value (Hampel, 1998).

In the early 2000s, the Higgs Report, commissioned by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry, further stressed the need for remuneration committee members to be independent and ensure that executive reward packages were properly devised in order to avert rewarding executives for poor performance (Higgs, 2003).

The task of the remuneration committee members is actually harder than it might apparently seem to be. Executive and director reward packages in fact need to be generous enough to attract and retain quality individuals, but not exceedingly generous insofar as resulting unjustified and, even worse, to reward executives and directors for failure. As maintained by Hewitt (2003), rewarding a few directors and executives for failure can also seriously blacken the reputation of the national business. The need for establishing a direct link between executive pay and performance, by extension, is totally justified.

In order to execute their tasks remuneration committee members can have recourse to external consultancies and advisors; however, this has to be eventually done with caution. Consultants might be prone to suggest committee members to offer companies' executives overly generous salaries in line with the external labour market pressures. Indeed, albeit these forces cannot be totally overlooked, the primary objective that has to be pursued when developing reward practices and packages is fitting the specific circumstances. This aim has to be clearly explained to external advisors from the outset in order to avert later disappointment and, even worse, to put in place policies inappropriate and unsuitable for the specific circumstances.

Executives and teams

The problem with executives' and directors' pay

During the last decade, executive directors and non-directors pay has attracted public and media interest mainly by reason of the overly generous pay offered by employers to this specific category of employees. According to research, in the period from 1998 to 2011 the median total remuneration of FTSE100 CEOs recorded an average growth from £1m to £4.2m. In 2011, nearly a quarter of FTSE 100 CEOs benefited from a 41 per cent total reward package value rise vis-à-vis the previous year; however, the average pay increase in the period has been calculated at 12 per cent. The findings of the investigation also revealed that pay increases mostly occurred in the form of deferred bonuses and long-term incentives, whereas base pay increased of just 2.5 per cent on average (Manifest and MM & K, 2012).

The worth of the reward packages earned by CEOs and the pace at which these have increased during the last years have both attracted public interest and bad press, insofar as political leaders too have turned their attention to this issue and laid specific laws down. In general, governments and regulators of many European countries have imposed restrictions on public sector and financial services organizations, mostly whether these are state-supported. None of the European countries has, however, adopted any particular measures in regard to the executive pay of the private sector organizations.

The main reasons why during the last decade executive pay has remarkably increased are usually associated with:

- The extended level of responsibility taken by CEOs for organizations becoming increasingly larger and complex (Kaplan and Rauh, 2007);
- The drawbacks produced by the need for more strict governance controls over executives' pay, requiring many employers having to disclose executives' pay details. Since employers benchmark their directors pay against the reward packages offered by their competitors, this has caused businesses to offer executives more generous reward packages in order to retain and attract quality professionals. For the same reasons, employers of countries where no regulations on executive pay transparency are in place have felt a fortiori encouraged to offer directors more generous reward packages (BIS, 2011);
- The evolution of rewarding systems which tend to become the more and more sophisticated, accounting for employers paying larger amount of variable pay in a bid to more effectively link executives' performance and results to pay;
- The trend pushing reward specialists to develop more complex reward systems favouring deferred pay. Since according to these arrangements the higher the level of risk the higher the pay, the base for pay is usually inflated in that objectives might not be attained and executives might in turn receive reduced bonus payments, if any (PwC, 2011);
- The complexity of reward arrangements which may cause the link between performance and reward to be blurred, at best, and completely lost, at worst. Moreover, being these systems based on a larger number of reward options, it is very likely that in the end some of them will be paid despite not completely justified by the real executive performance.

According to the Croner's "Directors' Reward Survey" (Cree, 2010), however, the typical director's fat cat image can be considered just as an executive representation of the past. Findings of the investigation revealed, but this should not come as a surprise, that many executive directors work more than 60 hours a week (21 per cent) and that some of them seldom take all of their contractual holidays. As regards the link between pay and performance, only half of the participants said that their pay is linked to performance; it also emerged that this occurrence is mostly typical of large organizations. Nearly 50 per cent of directors reported just a 2 per cent salary increase, 37 per cent said that their pay had been frozen and 9 per cent of the respondents to the investigation said that they had even undergone a pay reduction. Only 40 per cent of the directors reported having received a bonus during the previous twelve months. The investigation also revealed that the typical bonus amount was of £25,000 for executive directors and £15,000 for executive non-directors.

The findings of the survey actually depict a scenery overly different from that known to the general public. The investigation backdrop may possibly help to find out the reasons for such different depiction. The questionnaire was sent by Croner to 45,000 members of the UK Institute of Directors (IoD) whereas only 745 executive directors responded to the survey, namely less than 1.7 per cent. The final result of the overall investigation is hence the result of the opinion expressed by a minority of directors, possibly those less happy with their current experience and circumstances.

Notwithstanding, the real reason for executive pay having caught the public interest and having had bad press during the last decade is not that much associated with the generous sums of money paid in absolute terms by employers to this specific category of professionals, but rather with the lack of a clear cause-effect relationship between such generous payouts and performance. In many cases, executive directors have received very large amounts of money even for having failed to attain organizational objectives. This bad practice, known as "rewards for failure", has also actually had a remarkable impact on executives' and directors' payment of severance packages. In some cases in fact executive directors have received extremely generous severance payouts upon leaving their companies also after having outrageously failed to attain their objectives.

Averting to reward executives for failure

In many countries the awareness of the negative impact provoked by such bad practice has prompted governments to take appropriate actions. However, also the shareholders of many organizations have expressed concern for the serious threat this undesired habit could pose to their companies, not least from the reputational viewpoint.

The identification of a series of measures aiming at preventing executives to be rewarded for failure has become hence necessary. Amongst these, requiring shareholders vote on executive directors pay and attributing to this a binding value is definitely considered of crucial importance. Giving firms' shareholders "say on pay" is believed to prompt these to be more involved in the business management and to publicly provide evidence of the significance organizations associate with their executives' pay decision-making process. Indeed, by reason of the relevance the phenomenon has lately acquired, shareholders' vote should also be introduced for severance payments determination. In the UK, this requisite has been legally introduced by the Companies Act 2006.

Since the largest component of executives' reward packages is represented by variable rewards, particular attention has to be paid to the development of schemes establishing a clear line of sight between pay and performance. Care needs indeed to be taken during the implementation phase too; also in this case a sensible difference could emerge between what has been designed on paper and implemented in practice.

The role of remuneration committees is clearly paramount and members composing these should never forget that their main objective is that to foster the long-term interest of the business.

Members of remuneration committees are habitually individuals who have the professional experience and expertise to identify challenging objectives, set appropriate reward packages and develop effective assessment methods of executive performance. On the other hand, however, these individuals, just by reason of their past experience, are also considerably influenced by the "generous pay" culture, insofar as what may be deemed as excessive for the general public could be simply considered as a norm for them (The High Pay Commission, 2011). Additionally, remuneration committee components usually tend to design and introduce pay arrangements based on traditional approaches, rather than coming up with new methods fitting the business circumstances (Main et al, 2008).

It is the more and more believed that diversifying the composition of these committees, avoiding these to be entirely formed by non-executive components of the board, may definitely help (BIS, 2011). To this extent it may turn to be particularly effectual asking independent members with, for instance, academic, consultancy and advisory background (Hay Group, 2011) to become part of the commission with no need for these to become full non-executive members of the board (BIS, 2011). The different background and expertise of these individuals could indeed enable organizations to gain new perspectives and develop new approaches to executive pay practices (TUC, 2011).

An additional feature, more directly associated with the full independence of the remuneration committee members and in turn with their impartiality of judgment in terms of executive pay decision-making, relates to the circumstance that many directors may cover at the same time different positions in different organizations. This may cause that, for instance, a person making pay decisions about the pay of another individual in a given organization is subject to the decision made by that same person in a different organization, still in terms of reward. This could clearly affect the pay decision process in both organizations and cause evident conflicts of interest which should be averted from the outset (BIS, 2011).

Some stakeholders in the UK have supported the idea that, in order to implement a radical and effective change in the executive pay decision-making process, employee representatives should be invited to be part of remuneration committees. This recommendation is based on the assumptions that employees would better dissect pay or severance pay proposals practically aiming at rewarding executives for failure and would better assess extremely generous executive pay offers and increases vis-à-vis those offered to the other employees, especially when the latter have benefitted of very modest pay increases or the business has made people redundant.

Where implemented this initiative has produced mixed results, as well as has produced mixed reactions the proposition to introduce this initiative as a rule in some other countries. According to research conducted by Buck and Sharhrim (2005), for instance, employee involvement has produced positive results in Germany; by contrast, several other investigations have underscored the difficulties emerging when trying to execute this approach in practice in other countries.

The effectual implementation of this initiative implies first and foremost that employees have or gain an in-depth knowledge of the business strategy. Additionally, it should be clearly defined what their responsibilities are and this aspect could be clarified only determining whose interest these are supposed to protect: that of the employer, that of the employees or both? Whether these should be representative of the employer interest, it should be assumed that it would be up to the employer nominating these, whereas in the case they should be representative of the overall workforce interest it should be most appropriate these to be elected by the employees.

The implementation of this approach should be also clearly based on the company law in force in each country. Europe, for instance, is characterized by a fair level of heterogeneity in term of employee representation at board-level insofar as three different grouping of countries can be identified with reference to this aspect (Worker Participation, 2013):

- Countries without any specific legislation (Belgium, Bulgaria, Cyprus, Estonia, Italy, Latvia, Lithuania, Malta, Romania and the United Kingdom),
- Countries where employee board-level representation is limited to state-owned companies (Greece, Ireland, Poland, Spain and Portugal),
- Countries where employee board-level participation is extended to private sector employers (Austria, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Hungary, Luxembourg, the Netherlands, Norway, Slovakia, Slovenia and Sweden).

Notwithstanding, board-level employee representation is differently regulated in each nation. In many countries, for instance, it is subject to the number of employees forming the overall workforce. The lowest threshold has currently been set in Sweden with 25 employees, whereas the highest in France with 5,000 individuals. Differences are also concerned with the rate of board seats occupied by employees and the title seats are occupied, namely whether these are taken on a supervisory board or single tier board title (Worker Participation, 2013).

The introduction of laws regulating board-level employee participation can also have an impact on, and may require hence a revision of, the company law accordingly. In the UK, for example, company law entails that individuals participating at board or committee meetings are companies' directors. The introduction of a rule extending employee participation to remuneration committee would, by extension, require the amendment of the company law accordingly.

Irrespective of the legal constraints, however, it can be considered questionable assuming that employee involvement in remuneration committees could reveal to be beneficial for organizations. Once employees would be invited to participate to the committee meetings these should clearly have an active role and it is unlikely that these may have the technical knowledge and experience to actively participate on a decision-making process for which committees members, when needing advice, are used to have recourse to accredited national and international firms. As discussed earlier, executive pay arrangements tend to be the more and more complex and sophisticated; employees not having the required expertise and experience would clearly be in difficulty and would be essentially unable to have their say in such meetings.

As mentioned above, even though responsibility for executives' pay will invariably rest with remuneration committees, it is possible for their members to seek external professional advice. Since consultancies could hold sway over the remuneration committees final decision, in 2009 was introduced in the UK a voluntary Code of Conduct in relation to the executive remuneration consulting activity. The Code, developed by the Remuneration Consultants Group (RCG) in representation of the major consultancies of the UK listed organizations, as stated by the same Remuneration Consultants Group, basically "sets out the role of executive remuneration consultants and the professional standards by which they advise their clients, whether their clients are Remuneration Committees or the executive management of the company." It therefore aims at clearly explaining the scope and conduct of consultants when providing advice to the UK listed organizations as regards executives' pay and defining the standards of the information that consultancies should provide to their clientele.

The conflict of interest which might potentially arise when remuneration committees have recourse to external consultancies has prompted many governments around the globe to take some actions. In 2011, for instance, the Australian government enforced stricter rules on the type of relationship which can be established between companies' remuneration committees and consultants. Similar initiatives were also adopted in the United States were remuneration committees have the obligation to unveil how these have managed and sorted out the conflicts of interest eventually arisen (BIS, 2011).

Executive pay composition

As mentioned in different occasions throughout this paragraph, executive pay programmes, especially during the last few years, have become fairly complex insofar as attracting in some cases widespread criticism amongst stakeholders.

Executives and teams

Executive reward packages at large are formed by fixed and variable components. More specifically, reward packages are composed by a combination of all or, less likely, some of the following main elements:

- ✓ Base pay,
- ✓ Annual bonus,
- ✓ Long-term incentive plans (LTIPs),
- ✓ Share plan(s),
- ✓ Retirement or pension scheme,
- ✓ Benefits.

Whereas the fixed components of such reward packages, namely base pay, pension scheme contributions and benefits are irrespective of individual performance; bonuses, LTIPs and share options are usually depending on individual performance, that is, on the attainment of the objectives agreed with executives from year to year.

Findings of a study carried out by Towers Watson revealed that within the "Eurotop 100 companies" German CEOs have the largest portion of variable pay; for these executives this component can attain up to 76 per cent of the overall reward package. By contrast, countries of Northern Europe are those where CEOs typically receive the lowest rate of variable pay, in general approximately one third of the overall reward package (Padda, 2013). More extensive research revealed that in the United States CEOs base pay accounts for 32 per cent of the overall reward package, whereas in the UK it may account for less than 20 per cent (Manifest and MM & K, 2012).

At international level, however, some other differences can be clearly identified in terms of executive reward packages composition. American CEOs, for instance, are much more likely to be offered share options than their UK counterparts, where the rate of organizations offering options has dramatically dropped in the late 1990s to 50 per cent. Moreover, American CIOs share options grant usually covers 36 per cent of the overall CEO pay, whereas in the UK, when offered, the average rate is fairly lower: 10 per cent (Manifest and MM & K, 2012).

Base pay

Executive base pay is usually the fruit of individual negotiations and its final determination is typically influenced by a number of factors such as the business size and complexity and the spam of control and responsibility entrusted to the executive. As for other specific categories of employees, the importance of both internal and external relativities cannot however be neglected.

In order to ensure that the rate of pay offered by employers would enable these to attract and retain quality individuals, this has to be clearly in line with the external market trends. Gaining an appropriate understanding and knowledge of the relevant market is hence definitely mandatory. Market surveys and external practitioners can definitely help employers to make sound and appropriate decisions (Independent Director, 2005).

The determination of executives' pay needs to be made taking into due consideration also the endogenous environment, or rather, the internal relativities. The level of pay agreed with executive directors and non-directors can in fact influence and impact senior managers and managers pay (Armstrong, 2010). Indeed, as mentioned above, there is another grouping of factors which need to be duly taken into consideration when determining executive base pay. These factors, which can be deemed as strictly organizational-related, are represented by the size of the organization, the geographical expansion of the business, the industry sector and the level of the external competitiveness (Independent Director, 2005).

Albeit base pay typically represents the relatively more modest amount of an executive overall reward package, this is particularly important for the influence it exerts on its variable components. These are normally calculated as a multiple or percentage of base pay; this aspect should never be underestimated by employers.

Executive directors' and senior executives' salaries are usually reviewed on an annual basis. Remuneration committees may consider offering executives base pay increases whether these consider it appropriate to the circumstances and justified by executives' performance.

Since 2008 a considerable change has been observed in executive base pay trend. Whereas till that year base pay used to grow by 5 to 10 per cent a year, thereafter executive pay has more often than not been frozen or, at best, seen increases of the order of 1 to 3 per cent (Manifest and MM & K, 2012).

Executive annual salaries reviews should be carried out in order to assess whether executive pay is still consistent with the external market rates and with the level of pay received by the same business' managers and senior managers. Base pay increases may be also deemed appropriate and necessary whether a shortage of qualified and capable professionals should characterize the relevant market (Independent Director, 2005).

Annual bonuses or short-term incentives

Annual bonuses are typically included in all of the executive directors and non-directors financial reward packages of which these form an important component. Bonuses are offered by employers to executives in order to favourably influence their performance and contribution, and in a bid to retain them. As an important component of the overall reward package bonuses contribute, in addition to the other financial reward components, to total pay being consistent and in line with the relevant market trend.

Bonuses are usually calculated as a percentage of base pay and related to a one-year period time, with payment being made in cash typically within the first two/three months of the following year to which the performance assessment process is referred to. The process is essentially formed by four stages:

- The first stage consists in defining the objectives which need to be attained by executives based on the KPIs identification,
- The second step is concerned with employers setting performance targets,

- At the end of the relevant period performance is assessed against objectives,
- The process ends with employers making the necessary arrangements for the final bonus payment according to the assessment outcome.

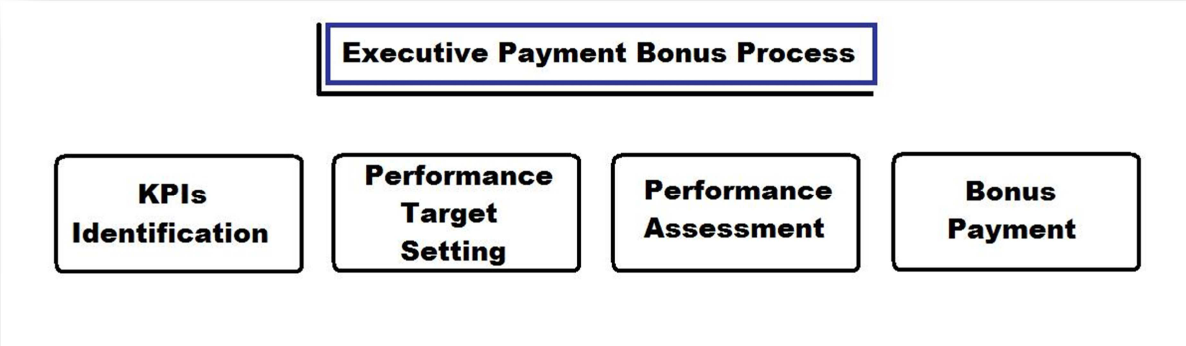

Table 46 – Executive bonus pay process

Organizations can use different KPIs in order to make decisions about executives' bonus payment. These can be based on individual performance, on corporate performance or on a combination of both of these. Amongst the corporate performance indicators: profit before or after tax, cash flow and earnings per share growth are the most commonly used. As warned by Armstrong (2010), however, some of these indicators may give rise to some undesirable issues for employers. Executives in fact may be tempted to alter financial reports in order to, for instance, the business' shares price appearing to be higher and receive larger bonuses payouts.

Some companies also have recourse to balanced scorecards where a combination of both quantitative and qualitative marks is used in order to assess performance and pay, hence, bonuses. Where applicable, organizations can also decide to have recourse to specific measures typical of their industry or activity; such as: customer or employee satisfaction, health and safety performance, combined ratio, etc. Other different types of indicators, such as corporate social responsibility or the attainment of particular strategic milestones, are sometimes included amongst the measures taken into consideration for executive bonus payment (Independent Director, 2005).

Once objectives and KPIs have been identified, employers, by means of the company board or the remuneration committee, have to define in what circumstances the pre-identified objectives can be deemed met by the executives. To this extent, employers could decide to introduce a ***threshold performance level*** that is a minimum or lowest level of performance that needs to be attained in order to a bonus be paid. The concept of threshold is in this case basically associated with the identification of a sublimit compared to the ***full performance level***, which whether achieved by the executive, would entitle this to receive the payment of a given percentage of the overall amount which would have been paid in the case the executive would have achieved the full performance level.

The payment linked to the attainment of the threshold performance could also be expressed in terms of a percentage of base salary. However, this percentage will be clearly much lower than that identified for the full performance level attainment. In addition to the minimum performance level and full performance level, employers should also define from the outset the ***maximum performance level*** that is the maximum bonus which could be paid to executives and the level of performance required to these being considered eligible for such payment. The maximum bonus can be either capped or uncapped depending whether a restriction is applied or otherwise to the payment of this type of bonus (Independent Director, 2005).

Executive performance-level-related bonus payment

		Bonus Calculation		
		Absolute Value £/€/$	Relative value Base Pay %	% of full
Performance Level	Maximum	500,000 Capped	500% Capped	300% of full
	Full	300,000	300%	300,000
	Threshold	50,000	50%	20% of full

Table 47 - Executive performance level related bonus payment

The mechanism of the bonus payment is essentially based on the definition of the rate of the bonus payment in case of attainment of the pre-set level of performance and on the definition of a minimum and maximum rate whether the executive should under- or over-perform vis-à-vis the pre-identified objectives. The minimum level of performance in order to the executive been deemed eligible to the payment should be invariably identified.

Albeit the maximum amount of the bonus might or might not be subject to a cap, it is always better, as a general rule, to also set a maximum payable bonus from the outset.

At the end of each pre-set period, executive performance will be assessed and the bonus payment made according to the outcome of the assessment procedure.

Deferred bonuses

As a consequence of the international financial crisis burst in 2008, employers' recourse to bonus practices based on deferring part of the executive bonus payment has remarkably increased. Albeit this practice was initially intended for the financial sector industry, many employers of the private sector too are nowadays using this approach as a matter of course.

The recourse to this type of approach is first and foremost intended to avert executives resorting to risky initiatives in order to attain both organizational and their personal objectives. The first recommendation provided by the Chartered Institute of Management Accountant (CIMA) on executive pay in fact states that executive pay practices should clearly be aligned with a sustainable business strategy and introduce bonus arrangements commensurate and linked to executive performance and risk-taking (Topazio et al, 2010).

The circumstance that part of the bonus will not be paid at the beginning of the following year as usual is aimed at stressing the circumstance that the benefits of executive actions have to be long-lasting as opposed to short-sighted.

In order to the intended aim being actually attained in practice, the identified component of the total bonus has to be deferred for at least three years (Barty and Jones, 2012). Indeed, deferring part of the bonus, usually in the measure of 50 per cent, may also reveal to be a rather effective retention measure. This effect should, at least in theory, be supported by the circumstance that being the deferred part of the bonus paid in business shares, whether the activities performed by executives should reveal to produce short-lived effects, the moment arrived the bonus amount will result lower than that actually expected. Bonus pay practices based on this method should, hence, contribute to the achievement of executives and shareholders interest alignment (Barty and Jones, 2012).

Some firms have developed and introduced "matching" or "co-investment" deferral plans. According to this plans executives who, usually voluntarily, invest the deferred portion of the bonus in company shares receive at the end of the relevant period a, for instance, "2:1 match." This would practically entail that for each, for instance, 10,000 shares deferred the executive will receive additional 20,000 company's shares at the end of the deferment period. According to the mechanism of these schemes, however, the additional or matching shares will be granted to executives only and only if the business performance has met the pre-defined requirements over the deferral period (Barty and Jones, 2012).

Long-term incentive plans (LTIPs)

The portion of long-term incentive plans of executives' total reward packages has increasingly grown during the last years. Since according to these arrangements executives receive part of their reward in the company shares or in cash only whether the business performance has met predefined standards, these programmes are considered somewhat of a good solution to surmount the principal-agent issue. On the other hand, however, these types of schemes clearly add complexity to executive reward management. Identify clear and easy to understand objectives and performance indicators over a relatively long period of time, usually three years, is actually the main challenge remuneration committees and boards have to tackle. In a bid to design more reliable and fair schemes, employers tend to have recourse to different types of metrics which in the end, considering that these schemes are just part of the overall reward package, lead to add complexity to complexity (BIS, 2012). The larger sums of money usually associated with these plans, compared to annual bonus programmes, are therefore justified by the more strict and stringent performance assessment criteria (Independent Director, 2005).

More often than not, organizations pay these forms of incentives in company shares rather than in cash. However, smaller business whose shares have no market as well as the subsidiaries of public limited companies may find it most appropriate to offer executives cash (Independent Director, 2005).

Share plans

Share options plans

Organizations can grant executives the right to buy, in a given period of time in the future, a predetermined number of the company shares at the market price these have at the moment in which the option is granted. These schemes usually appear attractive to executives in that whether these should perform well, the business shares will gain value over time enabling them in turn to benefit of the company shares increased worth.

As suggested by Armstrong (2010), the reasons for these schemes being considered effective and appropriate for employers are mainly two: on the one hand these schemes enable to establish a direct line of sight between organizational success and executive earnings, based on the assumption that executives themselves have contributed to the business success; on the other hand these plans enable employers to more effectively pursue the alignment of the business interest with that of the executives and overcome the principal-agent issue. Armstrong, however, considers this second aspect questionable in that executives all too often sell the business shares immediately after having exercised their right of option. Albeit the point raised by the Author is clearly supportable, the circumstance executives sell their shares as soon as they can, could have been considered as spoiling employers intended aim whether options would have been mostly intended to create long-term loyalty, rather than enabling employers to set the agency theory-related problem. What in actual fact employers desire to attain by means of these schemes is "simply" ensuring that as long as executives have no title to exercise their right, these will do their outmost to the benefit of the business. On the other hand the criticism attracted by these schemes for the remarkable gains these allow executives to make are much more justified, especially by reason of the fact that, in most cases, the contribution of executives to the value attained by companies shares is limited, if any.

In the UK the use of share options has also considerably declined during the last decade by reason of the introduction of the International Financial Reporting Standard (IFRS) which, by changing the way share option grants have to be treated from the accounting viewpoint, caused these to be more complex to be dealt with (Barty and Jones, 2012).

Performance share and restricted share plans
As suggested by the same name, these plans are based on the award of a given number of shares to executives whose possession is conditional upon the company performance. Executives will gain ownership of the shares provisionally granted to them at the beginning of a given period only whether at the end of the agreed period, usually varying from three to five years, these have met the required level of performance.

Executive performance metrics
It is unlikely that nowadays company shareholders would be willing to accept executive incentives schemes whose number and values of the granted shares would not be based on executive performance. Boards and remuneration committees, by extension, have usually recourse to a combination of different metrics and measurements to assess executive performance and contribution (Barty and Jones, 2012).

In general, employers utilize two main types of measures:
- *Market-related measures* – concerned with the company share price fluctuation,
- *Non-market-related measures* – usually based on accountancy indicators or in some cases also on the volume of sales or on the net asset value growth.

Amongst the market-related measures the most widely used is the total shareholder return (TSR). The mechanism of this indicator is based on comparing amongst a number of businesses belonging to the same industry, "peer group", the value of the company shares over the relevant period of time and the gain or loss experienced by shareholders during the same spell. The benchmark against other businesses of the same industry is considered necessary, since taking into consideration the organization performance in isolation would not be sufficient to provide correct indications about the executive performance. The final organizational result might, for instance, result to be disappointing, but could reveal to be much more appreciable than that attained by the other businesses of the same or similar industry (Barty and Jones, 2012).

Amongst the non-market-related executive performance indicators, the return on equity (ROE), earning per share (EPS) and return on capital employed (ROCE) are definitely the most commonly used by employers.

Benefits
Employers usually offer to their executives, especially executive directors, a wide variety of perquisites in kind which are habitually remarkably different, both in type and value, from those usually received by the other employees and which in some cases can be particularly attractive, as is the case of the personal use of corporate aircraft. However, the benefits companies most frequently offer to executives are: company car, health insurance and housing allowances.

The values of the overall benefits package offered by organizations to executives usually reach 20 per cent and over of their total reward package (Armstrong, 2010).

Pension scheme
Amongst the benefits executives receive from their employers, those related to pension schemes are definitely the most important. Executive directors are typically offered pension arrangements enabling them to reach the maximum level of contribution in half the time usually required by a standard plan (Armstrong, 2010).

The majority of executives are likely to be still on a defined benefit pension plan where pension income is calculated on the basis of the number of employment years and of the pensionable earnings. Traditionally, employers have considered as pensionable earnings the "final salary", that is, the salary received by the executive when leaving the organization. In order to avoid the high costs associated with this approach, "pensionable earnings" has been more recently intended as "career average", that is, the average pay received by the executive throughout the employment relationship. This approach has, for instance, been introduced at Tesco a few years ago. The final salary-based pension scheme previously in place was hence closed to new entrants and replaced with the career average-based scheme.

The typical alternative to this plan is represented by the defined contribution programmes. These kinds of plans do not ensure executives an income at the time of retirement, but provide them the option to buy an annuity with the funds they have accumulated during the period of their participation to the scheme (Barty and Jones, 2012).

Rewarding teams

Introduction
The main reason why numerous employers have tried to develop and foster team working practices over time is mainly associated with the idea that work carried out by teams can enable businesses to achieve more satisfactory levels of performance. Putting individuals in the position to potentially extend their knowledge and competencies, teamwork is also supposed to provide individuals effective opportunities for growth.

As suggested by Buddy (2008), however, the concept of team is different from those of crowd and group. A number of people put together by chance forms a crowd, a number of individuals of the same organization working in different units, but sharing information and work practices, can be considered a group, but only a relatively reduced number of people with complementary knowledge and capabilities working and sharing accountability for the attainment of a common objective can be actually considered a working team (Katzenbach and Smith, 1993).

Organizations having opted for the introduction of teamwork have been virtually immediately confronted with the reward management issue, that is, the identification of the most suitable reward scheme and practices to develop and implement in order to sustain the performance of the members of the different teams. The introduction of a specific reward programme can indeed help employers to underscore the importance they associate with team working as well as provide evidence of the increased expectations they have in terms of improved performance (Englander, 1993).

Identifying the most appropriate team-based reward programme

Designing a sound and effective team-based reward system definitely represents a sorely difficult feat. Employer prime aim is clearly that to induce individuals to genuinely collaborate and motivate them to do their utmost for the attainment of a common objective. However, whether not properly and crafty devised, this type of reward arrangements are likely to produce severe drawbacks in practice.

Employers can essentially opt for a system aiming at rewarding group performance, individual performance or a combination of both. Distributing reward amongst team members according to group performance essentially means operating the system on the basis of the *equality* tenet. Equality implies that all of the individuals forming the team will receive a reward of the same worth, irrespective of their individual contribution to the final output produced by the team. Systems based on *equity*, by contrast, foster individual contribution and reward teams' members for the value of their input and participation to the team. Individuals who have contributed the most will hence receive an incentive of higher value vis-à-vis that received by the other components of the team who have contributed less.

The introduction of both equality-based and equity-based approaches, however, can potentially produce undesirable consequences and impediments during the implementation phase. To avoid falling into the pitfalls typically associated with the introduction of team-based reward schemes, when designing and developing these types of systems, a number of circumstances should be definitely taken into consideration by employers from the outset. Many of these reward plans in fact have failed miserably just by reason of employers having neglected some implications, typical of these schemes introduction, revealing later impossible to readdress.

Group-performance-based schemes

A number of individuals sharing responsibility and equally accountable for the final outcome produced by their work should in theory equally contribute and participate to the team activities, albeit each one according to his/her field of expertise. In practice, however, this is not invariably the case. Individuals who have devoted to the team a lot of efforts will clearly express disappointment and resentment in the case these should receive the same reward as that received by the other team members who have contributed less. The wider the gap the higher the level of displease of best performers who, as a consequence of this, will feel overly deterred to perform well and at their best in the future.

Individual-performance-based schemes

The implementation of individual-based reward schemes within a team usually prompts brilliant individuals to strive in order to attain outstanding results. The flip side produced by this approach is that employees tend in such circumstances to be very jealous of their ideas and unveil these only in public events or in occasions where they can increase their visibility in presence of their managers or company's senior executives. This leads in turn to the most negative occurrence which may affect teamwork, that is, the paralysis of the information stream and circulation, which should indeed be at the basis of and characterize, effective team working (Field, 2006).

Findings of an investigation carried out by the Center for Effective Organizations revealed that the use of team-based incentives has increased, amongst Fortune 1000 companies, from 59 per cent in 1990 to a remarkable 85 per cent in 2005. The study also showed that the introduction of team-based reward plans has revealed, in many occasions, to be ineffective to practically encourage teamwork by reason of the pay inequity perceptions it generates amongst employees (Merriman, 2009).

Hybrid system - Combination of individual and team performance reward
A car dealership in Silver Spring (US) used to reward its sales staff, composed by twenty members, exclusively on the basis of individual sales assessment. This had triggered over time somewhat of a war, more than a contest, amongst the salespeople who spent much more time trying to damage other colleagues and steal each other customers, rather than developing sound customer care strategies. What worse, this atmosphere was also clearly perceived by the dealership clientele causing a negative impact on the business overall volume of sales. Subsequently, the employer decided to change its reward system and put in place a scheme rewarding salespeople both for individual and team performance. This brought a profound change virtually immediately: employees started collaborating, customer noticed this and turnover rate drastically dropped as a consequence of the execution of this change (Ross, 2006).

According to Field (2006), therefore, the best way to reward team members is that to recognize them both on the basis of individual and team performance. In order to this "dual-focus incentive" scheme be successful, employers need to be clear from the outset on the importance they associate with individual and team performance and in which measure each of these components contributes to the calculation of the final incentive; for instance, 30 per cent and 70 per cent or a different combination of percentages.

The hybrid approach can actually reveal to be most appropriate in many circumstances; however, it is not completely immune from risks and potential downsides itself. These schemes in fact, being more sophisticated and complex, certainly require much more attention and care during the development and implementation phases.

Employers introducing such type of schemes, in order to properly and effectively assess individual and team performance, should have recourse to the same indicators or to similar and comparable measurements. Differently, after having identified clear performance assessment metrics for individual and teams performance, these will need to be aligned in order to render them comparable and useable in conjunction with each other.

Developing a team-based incentive scheme

Irrespective of the approach identified, there are a number of aspects and elements that reward managers and professionals should invariably consider when designing and developing these programmes.

The first of these aspects is once again associated with fairness. The reason why the largest part of individuals prefers equity-based to equality-based approaches is in fact sorely associated with the lack of trust on incentive fairness, or rather, in the other team members. As often as not individuals are wary of the circumstance that all the team members will practically contribute equally. The less an individual trust the other or part of the others team members, the less this will be willing to accept an equality-based incentive system. Basically, individuals express dissatisfaction with equality-based reward systems by reason of their lack of trust in individual equal contribution.

Coherence on the way team members are rewarded is definitely paramount. Managers assessing individual performance should be used to invariably apply the same judgment method and reward individuals according to their real value and contribution. However, when people working in a team come from different functions of the company and rewards are decided internally within each function, some inconsistencies can actually occur. Team contributors are likely, sooner or later, to become aware of the value of the incentive received by the other teammates, and where unsustainable differences should emerge these will be clearly perceived as unfair and unacceptable by the individuals concerned and deter these to perform at their best in the future (Merriman, 2009). At worst, the existence of such circumstances might also pose some serious risks and threats to the employer in legal terms. Individuals in some cases might in fact feel encouraged to lodge a claim for discrimination or equal pay legislation breach.

As maintained by Merriman (2009), inconsistency is important not only across a team, but also over time. An employee who has in the past contributed to a team and received an incentive for his/her contribution would be expected to receive a similar treatment also in the future occasions. Whether this should not be the case, employers should inform individuals from the outset in order to avoid later disappointment and preferably also explain the reason for not being planned any incentive for the people participating in the team in the present occasion.

When an individual-performance-based scheme is in place, employers usually reward individuals according to their contribution to the final output. In many occasions, identifying the correct and most adequate incentive at detailed level for each different degree of contribution can reveal to be overly tricky and, in some circumstances, perhaps even not helpful for individual perceiving that the system is operated fairly by the employer. As posited by Merriman (2009), taking care of the extremes, namely rewarding excellent performers, granting them an incentive and disciplining worst performers, excluding them from the team, albeit not representing a fairly straightforward exercise, could suffice to provide employees the feeling that the organization is doing whatever it can to ensure fairness to the system.

Executives and teams

Theoretical research carried out by Irlenbusch and Ruchala (2006) revealed that when a hybrid team-based reward system is used, that is, a combination of the team- and individual-performance-based incentives, the additive effect produced by the two components of the system causes individuals to yield more appreciable results. Individuals make extra efforts whether the value of the bonus is actually high or perceived as high, differently they seem not that keen to excel in contribution. Whereas if a team-performance-related compensation scheme is in place and the value of the incentive is low, individuals tend to contribute over the norm. However, this high level of contribution tends to decline later on. In the case the value of the incentive is high, by contrast, individuals tend to contribute more stably throughout the lifecycle of the work, but only slightly above the norm.

Whether an additional incentive should be introduced for the best performers, the level of contribution sensibly increases amongst team members, but to the detriment of cooperation, which drastically drops. If according to the scheme only one individual amongst the team members can receive the extra-incentive, those who do not consider themselves likely winners or best performers could feel downcast and deterred to effectively contribute to the work of the team. The introduction of an individual-performance-related incentive within a team-performance-related system should be, by extension, invariably planned with extreme care.

A study conducted by Bamberger and Levi (2009) showed that the help provided by members of a team for technical assistance was higher when individuals were rewarded according to an equity-based reward system. The total level of help provided by team members sensibly increased when the level of performance-related pay was increased from 33 to 66 per cent. The investigation also revealed that whereas there were remarkable differences in terms of the level of help provided by team members between an equity-based and an equality-based reward system, little difference emerged when the comparison was made between an equity-based and a hybrid-based reward system. This clearly entails that, in some circumstances, the hybrid approach can enable employers to reward top performers and contributors whilst effectually fostering teamwork and employee cooperation.

Teamwork is likely to produce positive effects when bringing together individuals with different technical knowledge, namely when applied to multidisciplinary teams, even though each of the individuals concerned may continue to stay with separate management structures. The health sector, in particular, has shown a marked interest for teamwork practices in that considered particularly suitable for enabling the transfer of information amongst the people involved in taking care of patients. However, this approach does not invariably work as expected. Reportedly, for instance, it revealed to be unsuitable in the case of a mental health unit where, soon after the organization of the work in teams, it clearly emerged the need for a clear authority structure (Boddy, 2008).

As usual, the one-size does not fit all. When planning to introduce a team-based compensation scheme, hence, particular care must be paid to the circumstances. The first aspect to care about is ensuring that the introduction of teamwork and team-based reward plans is consistent with the business culture. Whether corporate culture has never encouraged or fostered team working and cooperation, before introducing team-based reward schemes employers should better plan to introduce and implement some adjustments to the company culture. Whether this has been traditionally marked by individually recognizing employees for their efforts and contribution, the introduction of a team-based reward system might reveal harder to implement in practice. In such circumstances, however, in order to make the cultural shift transition period smoother, employers could start by introducing hybrid reward systems (and possibly hold these). The tournament component of the system will enable employers to keep faith to the traditional value, while trying to mitigate its importance.

According to Fox (2007), the introduction of team working practices has not been necessarily followed by a change in the reward system. The design and development of a new reward scheme should eventually be considered later on. What matters the most, at the outset, is the composition of the teams and whether these are designed properly; the identification of the most suitable reward system to eventually support team performance, provided this would be necessary, will emerge as a natural result of the team development process. The best teams "form by themselves" and whether the team should not perform as expected, issues will not be overcome by means of the reward system.

This point is particularly significant in that it should help to further remind employers that they cannot rely on reward systems to correct corporate problems, irrespective of the circumstance that these might be associated with management or structure's inefficiencies or inappropriateness. Reward, as usual, can support businesses efficiency and help employers to sustain individual and organization performance, but cannot solve problems whereas the roots of these should be sought and found elsewhere and fixed by means of different actions.

Nucor Case study

Nucor is one of the biggest steel producers in the US. At any Nucor Corporation Plant almost every employee knows, with reliable approximation, what the level of its weekly team bonus is at any time. Employees are also very likely to know the different products which will be worked during the week and how these impact their bonus. At Nucor teamwork is rather important and this clearly transpires from its reward system, organizational design and management philosophy.

Whether some members of the team should not perform as expected, are the same team members who basically expel insufficient performers from the team. This rule also applies for managers: "this is one of the few companies where employees can fire their boss."

At Nucor each employee participates at one of the four incentives schemes in place. The plan devoted to production workers is very simple: a typical team-based performance scheme. Teams are formed by twelve to twenty individuals and incentives are paid weekly. Whether necessary, in order to enable employees to constantly work, the business can occasionally reduce work shifts, but, despite this, employees can continue to be paid incentives.

Bonuses are not capped and are usually paid between 100 and 220 per cent of base salary, more frequently between 170 and 180 per cent of base salary. This has no impact at all on quality; on the contrary, the reward system actually duly takes care about the value of the output produced by each team. The weight of bad products is in fact deducted from output if detected within the unit work area. Whether bad products reach other work units within the plant or the shipping unit, the weight of product deducted from the output is doubled. In the event bad products should reach the final customer the weight of product deducted from the final output is multiplied by three.

Thanks to this team-based reward scheme, in 2005, the average Nucor steel mill worker earned an annual income of $72,000 to which a further $18,000 were added as a consequence of employee involvement in the plant profit-sharing scheme.

At Nucor all of the employees participate to a performance-related reward plan. Professional and administrative employees, for instance, take part to an incentive scheme based on their function’s financial performance. The value of the bonus of these types of employees can be of up to one third of their base pay, whereas that of department managers, who are paid twice a year, can attain up to eighty per cent of their base pay. Senior managers’ incentives depend on the company annual overall percentage of net income to shareholders’ equity. In addition, all of the company employers, with the sole exception of senior managers, share 10 per cent of the company’s operating profit.

Nucor introduced this four-leg reward system back in 1996, since then to 2005 the company has been invariably rentable, quarter after quarter, and no employee has ever been made redundant.

Source: Krug, D. and Bolch, M., (2007).

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PART SEVEN

Pension plans

Section XVII State and occupational pensions

Types of pension schemes

The pension arrangements provided by employers to their employees represents and have therefore to be intended as employee benefits and more in particular as deferred benefits. Employers put in place these plans, which individuals can join at the beginning of their working life, essentially in order to ensure that their employees will continue to receive an income also after the conclusion of the employment relationship, enabling them to hopefully maintain their standard of living after retirement.

Well-developed pension plans can potentially represent a significant component of total reward packages helping organizations to both attract and retain quality employees. The importance of pensions plans, however, may differently be perceived by the individuals forming an organization workforce; this, despite the remarkable resources and costs faced by employers to introduce and administer these schemes. Indeed, the more various the workforce composition, the wider the difference in perception employees are likely to express as regards this particular type of benefit.

Generation Y employees are typically likely to be remarkably less interested in pension plans vis-à-vis Baby Boomers and Veterans. This different perception, however, is supposedly mostly due to the age factor rather than to the typical, pure generational variance. Notwithstanding, Baby Boomers receiving a good or high income, especially whether these have also made particular plans for their future, like retiring abroad or establishing and running their own business, represents the generation of worker potentially most interested in early retirement pay packages (Parry and Urwin, 2009).

Many pension systems around the globe have been, and in some cases are still, exposed to the risk of implosion by reason of being not sufficiently funded. Albeit in some cases this might mostly be due to the mismanagement of funds, whose origins date back well in the past, there have been two other relatively more recent factors which have accounted for this trend to sensibly worsen during the last decade. On the one hand, in fact, the *ageing population* phenomenon has caused pension funds having to provide retired people with an income for, on average, a definitely longer period of time than originally expected; on the other hand the sustained unemployment rate characterizing many economies across the globe has accounted for pension funds to receive reduced sums of money, in terms of employees and, where applicable, employers contributions, whereas having to continue to provide an income to an increasing number of retired people. As stressed by Torrington et al (2008), the latter phenomenon is causing a sustained rise in the *dependency ratio*, which is based on the relation between the (growing) number of retired people and the (declining) number of people still working (and paying contributions to the funds). This trend has prompted in turn many governments to postpone employee retirement time, by rising both male and female retirement age.

The worth of the sum paid monthly by pension funds to employees after retirement depends on the contribution made by each individual and, where applicable, his/her employer during the employment relationship. As often as not contribution to individual pension plans are made by both the employer and the employee.

Pension plans can be usually grouped into two main categories: state and occupational pension plans. Notwithstanding additional types of schemes might be available in some countries according to the local legislation.

State pension plans
In the UK a new state pension plan has recently been introduced for individuals reaching State pension age on or after 6 April 2016. This scheme replaces the old system centred on a “basic” and an “additional” state pension scheme, which is still operating for employees reaching state pension age before 6 April 2016 only.

Occupational pension plans
Typically, occupational schemes can be offered by employers to employees in the form of defined benefit schemes (DB), defined contribution schemes (DC) or in the form of a hybrid scheme based on a combination of both.

Additional pension plans
Besides these schemes, there are other forms of plans that individuals can join according to the circumstances. Amongst these: stakeholders and group or personal pension plans are the most common.

State pension plans

State pension schemes are basically plans run by national governments in order to ensure that every employee will receive a minimum income after retirement. These plans, which are normally mandatory, are clearly differently designed and managed by governments, but basically all of them more often than not provide retired individuals with more basic benefits. Employees typically contribute to state pension plans by means of the National Insurance payments.

State and occupational pensions

In the UK a new system, called new State Pension scheme, has recently replaced the old arrangements formed by the Basic State Pension and the Additional State Pension schemes.

The Basic State Pension

Men born on or after 6 April 1951 and women born on or after 6 April 1953 are eligible to the Basic State Pension whether these reach pensionable age before 6 April 2016. The maximum payment an individual can receive under this scheme is of £113.10 per week, provided that the individual concerned has worked and paid national contributions for at least thirty years (including National Insurance Credits accrued during unemployment, illness or as a parent or carer).

Individuals having worked and contributed to National Insurance for less than thirty years would receive a weekly payment lower than £113.10 per week, but have the possibility to increase their basic pension by means of voluntary National Insurance contributions payments.

In order to be eligible to the £113.10 weekly payment an individual, during his/her working life, should have received from his/her employer (considered as a single employer) a weekly pay of at least £153.

In the UK, State Pension of transsexual individuals is not affected by any means whereas the individuals concerned have legally changed their gender and started to claim State Pension after 5 April 2005. Differently, some problems, which should be eventually settled with the relevant Authorities, are likely to arise.

The Additional State Pension

This scheme, providing retired people with an additional income besides that ensured by the Basic State Pension plan, basically complements this. The supplementary amount received by the retired individual is not subject to any regulation strictly defining or limiting it, but it rather depends on the National Insurance payments made by the individual during his/her working life and his/her earnings.

Since this scheme in parallel to the Basic State Pension plan, the criteria to access this plan are essentially the same as those listed above for the Basic State Pension plan. The moment arrived, there is no need to separately claim the payment of the sum associated with the additional pension. The payment in fact will be automatically made to the entitled people by the state.

The addition will be granted to individuals who have been employed, earned at least £5,668 a year and have clearly made contributions to the scheme by means of National Insurance payments. Also in this case, employees can gain Additional State Pension credits.

State and occupational pensions

The New State Pension

The new scheme will apply to individuals reaching the state pensionable age on or after 6 April 2016. At the moment in time, the minimum weekly amount which will be paid to retired people has not yet been set (it is expected to be communicated in autumn 2015), but it is not estimated to be lower than £148.40 per week.

The actual amount of the weekly payment may be higher or lower vis-à-vis that identified by the regulations (£148.40 per week) depending on the findings of the National Insurance record.

Under the new scheme, individuals might decide not to claim the pension as soon as they gain eligibility for the payment. They can in fact decide to defer, that is, to postpone the pension payment at a later time in order to receive a higher sum. However, the government has already decided that in order to obtain a higher payment a minimum deferring period should be introduced, albeit this is has not yet, at the time of writing, been set.

Since the new scheme will practically be effective from 6 April 2016, this date represents somewhat of a landmark for the pension calculation. The National Insurance contribution paid before that date is called "starting amount."

The starting amount is determined by the comparison between the amount which would have been paid to an employee applying the current mechanism, that is, basic state plus additional state pensions, and that calculated according to the new method also to the period preceding 6 April 2016. It will be considered as the starting amount the highest between the two sums.

Whether the calculated starting amount is lower than the full new state pension weekly payment, the qualifying years worked after 6 April 2016 will enable individuals to accrue the weekly pension payment; each year accounts for a weekly payment increase of approximately £4.25. In those cases in which the starting amount should already be larger than that which would be received applying the new full State Pension, the difference will represent a "protected payment." Protected payment will be paid in addition to the new full State Pension payment and is subject to be revaluated from year to year according to the inflation trend. In this case, however, the additional qualifying years eventually accrued after 6 April 2016 will not contribute to any increase in the new full State Pension.

To receive any new State Pension individuals will need to have at least 10, also non-consecutive, qualifying years on the UK National Insurance record. In order to receive the new full State Pension individuals need thirty-five qualifying years. Whether an individual should have in his/her record a number of years in between ten and thirty-five, a proportion will be applied.

Individuals participating in other types of pension plans (occupational, stakeholders, personal, group, etc.), are likely to have paid lower National Insurance contributions in favour of State Pension schemes. This circumstance is considered as an individual having been "contracted out" from Additional State Pension. This occurrence can be ascertained by checking the payslips. Whether in correspondence of the item "National Insurance contribution" is placed the letter "D" or "N", this means that the individual has been contracted out; by contrast, whether the letter "A" is placed in correspondence of the National Insurance contribution item, this entails that the individual has not been contracted out.

On 6 April 2016 rules will change and no employee will be contracted out; however, this clearly implies a higher contribution to National Insurance compared to that paid presently.

Individuals will gain qualifying years to the extent of the new full State Pension scheme whether during each year of their working life have received from one employer a weekly pay of at least £153 and have paid National Insurance contributions. The mechanism of the National Insurance credits applies also in this case.

Occupational pension plans

Pensions should aim at providing retired employees with an income enabling them to maintain after retirement a standard of living as far as possible similar to that preceding retirement. Indeed, state pension plans hardly enable individuals to achieve this objective so that, as suggested by Torrington et al (2008), occupational schemes are actually offered by employers to employees, besides state pension plans, in order to offer these more valuable and wider-ranging benefits. It can therefore be argued that occupational pension schemes basically complement state pension plans.

Occupational pension plans are usually not directly operated by employers, but by means of ad hoc established pension funds. This clearly represents a protective measure in favour of employee contributions and more in general of the money contributed by both employees and employers to these funds. Whether a company should experience cash shortage or being in a state of insolvency, these funds could not be by any means used by the employer to face the adverse circumstances. The objective is clearly that to protect the money contributed to pension plans from the risk that, once used by employers for different scopes, this could not be subsequently recovered.

The money contributed to the funds by employees and employers is invested and held in trust on behalf of employees till their retirement. Employers can either opt to set and run their own pension fund or entrust this activity to a third party, usually an external financial institution. Notwithstanding, this solution is not completely immune from problems, too. Whether an employer should become insolvent and its pension fund should simultaneously be in deficit employees could lose part or all of their pensions (Torrington et al, 2008). The same result could be produced also in the aftermath of the financial institution in charge of the pension fund management being forced into bankruptcy. Governments usually establish specific institutions to protect employees from such occurrences; but it is hardly supposable that, the case being, these institutions could enable employees to entirely recover the sums of money contributed to the funds.

Occupational pension plans can be basically designed and developed according to three approaches: defined benefit schemes (DB), defined contribution schemes (DC) and hybrid schemes, which essentially derive from a combination of both defined benefit and defined contribution schemes.

Defined benefit pension plans

As suggested by the same schemes' name, these plans are intended to determine the benefits which will be payable to employees upon retirement. The worth of these benefits broadly depends on individual pay and length of service.

The formula used to determine the value of pensions according to these schemes, also known as salary-related pension schemes, is based on:

- *The number of pensionable years* - that is, the number of years an employee has participated and contributed to the scheme;
- *The pensionable earnings* - which have most recently been identified with the concept of "career average" rather than, as more typically occurred in the past, with that of "final salary." According to the career average approach, pensionable earnings are identified on the basis of the calculation of the average earnings received by an individual over his/her career or over a number of years. Final salary, by contrast, refers to the level of pay an individual receives just before retiring;
- *The accrual rate* - that is, the rate of the earnings per year which need to be taken into consideration for calculation. The most widely used accrual rates in defined benefits pension calculations are 1/60th and 1/80th. This means that, to the extent of the pension calculation, for each year of service of the overall pensionable earnings it will be considered only 1/60th or 1/80th of the total amount.

Since the determination of the pension value is associated with different variables and it is impossible to determine in advance, according to the circumstances, the final salary or the average career salary, it is in turn practically impossible to predict in advance the exact value of the benefits for employees and the related cost for employers. This circumstance does not usually represent a problem for governments and public sector employers at large, which not being normally subject to insolvency problems make payments to retired employees without any particular need to pre-determine the exact costs at an earlier stage (Irish Association of Pension Funds, 2014). This approach, known as "pay as you go", however, is not appreciated by the vast majority of employers and let alone by employees, who want to be sure that, the moment arrived, the employer and its pension fund will be able to pay the benefits accrued over time.

The largest part of these schemes is contributory. Contributions to the fund are made directly by the employees participating to the scheme during their pensionable working life, usually on the basis of a pre-set percentage of their salary. Employers' contributions on the other hand are required and become necessary to ensure that the fund can be operated properly and that it constantly remains in the black. According to Armstrong

(2010), employers' contribution varies from 3 per cent to 15 per cent, with a median of approximately 8 per cent. The amount to be paid to the fund is identified by the pension fund actuaries, who determine it on the basis of the employees' life expectancy and the likely financial performance of the fund. These hypotheses are periodically reassessed and, whether appropriate, a new payment rate recommended by actuaries (Irish Association of Pension Funds, 2014). Both employers and employees usually benefit of a tax relief on their contribution payments (Torrington et al, 2008).

Defined benefit schemes may also offer individuals the opportunity to receive a lump sum, exempt from tax, in lieu of part of the pension. Some plans also allow the payment of part of the employee pension to his/her dependants in case of the employee death either before or after retirement.

Defined benefit scheme pension calculation
Accrual rate 1/60th
The employee retires at 65 with a final salary of £28,000 a year and a scheme membership of 30 years.

His/her pension is 30 x 28,000 / 60 = £14,000 a year (excluding the case that the employee may have changed part of his pension for a lump sum)

Accrual rate 1/80th
The same employee, retiring at 65 with a final salary of £28,000 a year and a scheme membership of 30 years will receive:
30 x 28,000 / 80 = £10,500 a year (excluding the case that the employee may have changed part of his pension for a lump sum).

It is unlikely that employees may be still offered the chance to join such schemes in that the existing ones are mostly operated in favour of employees having joined these in the past. However, the advantage of this type of schemes is that benefits are linked to employees' salary so that these are due to increase as a consequence of pay increases. Yet, their value does not depend on stock market performance and rises of a pre-set amount, depending on the inflation rate, year after year (Money Advice Service, 2014).

Defined contribution pension plans
Differently from defined benefit schemes, where employees contribute with a fixed percentage of their salary and employers contribute with the sum required to ensure the proper functioning of the pension fund, defined contribution plans, also known as "money purchase schemes", transfer risks entirely to employees.

According to the mechanism of this type of schemes, employers and employees contribute to the scheme in the same fashion, namely according to a pre-identified percentage of employee pay. The final pension is thus entirely calculated on the basis of the combination of these contributions. However, in this case, the financial performance attained by the pension fund has a remarkable impact on the final benefits received by employees and is therefore of crucial importance. The fund bad performance would negatively impact employee pension value.

An additional potential risk for employees derives from the use of the final sum received by these at retirement. This amount of money will be used to buy an annuity, normally from an insurance company, which essentially represents the monthly income that the retired individual will receive during his/her life. Annuities are subject to change from a year to another (Torrington et al, 2008); moreover, insurance companies offer different options and individuals may find it difficult to choose the most reliable and suitable for them amongst those available in the market.

Defined contributions schemes are, by extension, clearly less attractive to employees from the risk-exposure point of view; however, these are much more flexible vis-à-vis defined benefit arrangements. In case of change of employer, for instance, monies contributed to the fund can be more promptly and easily transferred to the new fund (Torrington et al, 2008). Moreover, up to 25 per cent of the overall pension value can be exchanged with an exempt-from-tax lump sum (Armstrong, 2010).

Also in this case employee dependants can receive a portion of the pension of the eventually dead, either during service or post retirement, employee.

In general, defined benefits arrangements are appreciated the most by both employees and unions in that do not expose employees' pensions to any stock market fluctuation and secure retired people an income. Unions are consequently always opposing any employer plan to move towards defined contribution schemes. In those cases in which employers should experience particular difficulties to shift from the one system to the other, these could try to introduce annual accrual calculation methods increasing employee contribution. The calculation of the accrual rate in eightieths rather than in sixtieth has indeed been introduced by employers to reduce their final cost in terms of pension plans (Armstrong, 2010).

Hybrid pension plans

This type of arrangements is basically developed combining the best elements of defined benefit and defined contribution plans.

Albeit there are currently limited cases of implementation of these schemes, these tend to ensure that retired individuals will receive a considerable and pre-determinable income, typical of defined benefit arrangements, in combination with the appreciable degree of flexibility usually characterizing the defined contribution schemes (Torrington et al, 2008).

Other pension plans

In addition to the most typical occupational pension arrangements, there are other pension plans to which employees, or some categories of employees, may have access according to the circumstances. Amongst these, stakeholder plans and individual and group personal pension schemes are definitely the most important.

Stakeholder pension plans

These arrangements were introduced in the UK, under the auspices of the government, in favour of employees receiving a low to mid-level income not having access to any other form of occupational pension plan.

These schemes are regulated by the government itself, but managed by specialized pension companies. The aim is essentially that to offer employees of businesses with a minimum of five staff, not having access to any occupational pension plans, the opportunity to join a regulated pension scheme. Albeit employers do not have to pay any contribution to the scheme, these have the duty to deduct from individuals' payroll the pension contribution and make the payment to the fund.

Individuals joining these schemes have the latitude to decide the amount of contribution to be paid to the fund. All stakeholder schemes in the UK are regulated by the Financial Service Authority (FSA) and should propose and offer employees wanting to become members of this type of schemes a default investment plan, whether these should not be prepared to decide amongst a range of available options offered by the institution (Armstrong, 2010).

Individual personal pension plans

According to the circumstances, employees could not be provided the opportunity to join an occupational pension scheme or may decide to exercise their right to opt out of the pension scheme provided by their employer after having joined it. In these cases, employees can autonomously decide to individually make the necessary arrangements for their pension.

Personal pension plans are usually agreed with authorized providers, usually insurance companies. These schemes are essentially based on the defined contribution mechanism so that the final value of an individual benefit will depend on the contribution paid by this into his/her personal fund. Employers may decide to contribute or not contribute to individual personal pension plans.

In the UK, to be considered as a qualifying scheme, amongst the other requirements, a personal pension plan has to:

- Be subject to the Financial Conduct Authority (FCA) directives and guidelines,
- Be money purchase or defined contribution-based,
- Underpinned by a binding agreement, preferably in writing, involving the employee, the employer and the provider of the personal pension. Particular relevance has in this case the circumstance that this agreement, differently from what usually occurs when a stakeholder pension plan is in place, has to necessary include the employer commitment to contribute to the employee pension plan for at least 3 per cent of his/her qualifying earnings.

Group personal pension plans
Group personal pension plans can either be considered as the result of a grouping of individual personal pension plans (Armstrong, 2010) or as an option put in place by the employer as an alternative to an occupational pension plan (Torrington et al, 2008).

In the former case, the employer essentially only cares about deducting employees' contributions from their payslips and settle payments to the pension provider; whereas in the latter case the employer is most likely to also paying contributions in favour of the individual pension scheme.

The paramount role of HR

Pensions represent the most costly benefit employers provide to their employees and, regardless of the importance each individual may or may not associate with these, pensions unquestionably constitute an important component of each employee reward package. It is hence necessary that employees are properly informed and made aware of the benefit they receive from a pension scheme. The role of HR in this sense is clearly crucial.

Pension plans arguably also represent the most complex benefit employees receive from their organizations, insofar as employees may find it difficult to understand the mechanism according to which these are managed and operated by their employer. HR is unquestionably the organizational function in charge to answer to all of the employee queries. In order to HR and reward professionals being capable of explaining employees their pensions benefits in a clear and understandable fashion, however, it is crucially important that these are absolutely acquainted with the scheme and the mechanism regulating it.

In relatively recent times, both by reason of the positive ageing population phenomenon and of the negative circumstance that many pension funds have revealed to be underfunded, pensions have also attracted the interest of many governments across the globe. This has accounted for pension systems, namely the laws regulating them, to relatively frequently be the object of revision and amendments. HR and reward specialists have hence the duty and professional obligation to constantly monitor the legal developments affecting their organization pension scheme and timely inform employees of how these may impact their plans.

Provide employees with a clear view and explanation of the main elements and features characterizing their pension scheme may also represent in some cases a legal requirement. In the UK, the new changes to the pension system effective from April 2014, for instance, introduced the statutory obligation for employers, considered as a minimum requirement, to provide employees, in writing and within a specific time limit, information about: individual right to opt in to an automatic enrolment plan, individual right to join the scheme and the mechanic of the scheme itself.

The new system introduced in the UK is based on an automatic-enrolment approach; however, eligible individuals who do not want to maintain membership to the new scheme have the possibility to opt out of it. This can however be done only after having joined the plan and, most importantly, after having received the information about the scheme from the employer.

Providing information to employees, however, has not to be intended by employers as a mere respect of a legal provision, nor has this duty to be considered as something that the employer has to do in the solely interest of the employee. Employers devote lots of efforts and resources to provide this benefit to employees and have to do whatever they can to ensure that employees actually understand and appreciate the value of this important component of their overall reward package. For example, some extra information and communication efforts could be worth to be directed at generation Y employees, who typically tend to underestimate the importance and value of this benefit.

Notwithstanding, the most important decision employers have to make, with the help of reward and HR professionals, relates to the identification of the most suitable scheme to be introduced. In order to make sound decisions, a thorough and in-depth knowledge of the available options and of the tax implications associated with each of these is clearly of paramount importance.

Particular attention and care should be also paid to the decision-making process aiming at identifying the provider or fund to which better delegating the management of the scheme. Larger companies usually set and run their own pension funds, appointing a fund or investment manager, whereas smaller businesses usually outsource this service to an external provider, more often than not to a bank or an insurance company. In both cases, employers have to do whatever they can to ensure that the people or institution to whom they entrust this delicate activity have the knowledge, expertise and solidity to successfully manage the fund.

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PART EIGHT

Topics needing further consideration

Section XVIII
The scope and future of reward

Reward: attraction vs retention

Reward definitely is one of the most fascinating HR topics and its significance is the more and more destined to top and firmly remain high on the business leaders' agenda, especially on that of financial institutions boards.

The growing interest in reward management, however, is not purely scientific or rhetoric-based; employers are typically extremely pragmatic and what interest them the most is their organization gaining competitive edge and being successful in the market they compete in. Reward is important and is regarded as an essential aspect of modern management in that it is believed that appropriate reward management practices can effectually help employers to attain their intended objectives and ultimately strategy.

The debate over the alleged or potential motivating effects of reward can be considered as an ever-lasting, old dispute which has very often caused controversy. Individuals are different one another; yet, individual preferences and wants are also likely to change in the course of time. The exogenous environment and the constant technological advances clearly play a fundamental role in this sense, but also the national and global economic and financial factors have a remarkable impact. Last but not least, the demographic aspect is surely likely to gain a growing relevance on account of the ageing population phenomenon. Individual needs are becoming, by extension, the more and more dynamic. The reward packages designed and developed by reward managers must aim at meeting these needs so that, as it happens with marketing, employers have to offer to their employees not the reward packages they like to offer the most or are most comfortable to offer, but rather the reward packages their employees would like to receive the most.

When designing reward packages reward professionals have to consider what final aim they want to pursue in practice.

The scope and future of reward

There is a rather wide consent to consider financial rewards effective to attract new talents and more in general new staff; but it is also widespread the conviction that this magnetic effect is due to vanish into thin air fairly soon. This entails that, whether an employer needs to recruit an individual from the external environment to fill a new role, this can successfully have recourse to financial reward as an appropriate leverage to attract and lure quality people, safe in the knowledge that this will not be enough to induce the individual to do his/her best over time. Before recruiting a new employee, reward specialists should not just care about the reward package to offer to the most suitable candidate, but should also have clear the plan of action necessary to retain this in the future, namely the design and composition of the financial and non-financial reward package.

Employers necessarily need to be far-sighted; they are aware that in order to attract skilled individuals there is the need to offer these appealing financial reward packages, which they are usually willing to offer, but it has also to be clear from the outset what reward packages they have to offer to retain these individuals in the future and receive their best contribution to the attainment of the business strategy over time.

This is clearly not an exclusive reward matter. Whether, for instance, the person would not fit the organizational culture or has misunderstood the content of his/her role, there will not be reward package worth to retain the individual. In such circumstances, it would be better recognize the recruitment mistake, bear the pointless waste of money associated with it and with the induction process and start back seeking for a genuinely suitable candidate.

The fact that employers should plan for each high-flyer an appropriate reward package enabling them to both attract and retain these, does not mean that reward specialists have to prepare a plan of salary increases for the newcomers. As discussed in many occasions earlier, the effect of money would not in any case be long-lasting and, unless there would not be the employer availability to cover individuals with cash, which sooner or later would reveal to be in any case insufficient, the retention objective has to be clearly pursued having recourse to other means.

Inasmuch as there is a wider consent amongst practitioners and academics on the effectiveness of financial reward to attract new staff, there also is a rather widespread agreement on considering non-financial rewards effective and, in any case, much more effective than financial rewards to motivate and engage people. Engaged and motivated people are clearly more likely to genuinely and spontaneously go the extra mile and contribute to organizational success.

In order to retain people employers and reward professionals should not therefore insist on the financial components of rewards, but should rather identify and develop appropriate and sound non-financial, intrinsic forms of rewards. These components of the overall reward package will contribute to individuals working with dedication. Non-financial rewards will also contribute to induce individuals to develop a feeling of involvement and participation on the organizational success and to increase in turn their sense of citizenship.

All in all, it clearly emerges that total reward approaches are the most, or rather, the only suitable approaches employers and reward managers can have recourse to in order to retain and keep employees motivated. Although the role of money may become of secondary importance in order to motivate people during the employment relationship, money will invariably continue to talk. The importance of financial reward, by extension, as to never been neglected or overlooked by employers. Individuals will invariably associate with money a relevant degree of importance and, even though they might not constantly think about financial rewards when performing their day-to-day activities, they could anyway perceive a pay increase as something they deserve or as a need. To this extent two elements play a particularly remarkable role: pay decisions fairness and the individual general financial circumstances.

Despite employers could be happy with their financial reward package and their daily activities, these could feel to be treated unfairly by their employer whether this should grant unjustified and unsustainable pay increases to some individuals. The knock-on effect produced by such circumstance can be extremely detrimental for the business and risks seriously and irreversibly jeopardising the relationship of trust established between employer and employees.

Internal fairness clearly represents a critical factor, but the external labour market and the pressures coming from it have to be duly taken into consideration too.

It is also important to clearly explain employees the worth of their overall reward package composition taking also into consideration, for instance, benefits and deferred benefits. Some employers may offer more generous pay, whereas offering very poor benefits and pension contributions. It is crucially important that these aspects are constantly and clearly communicated to staff and to external candidates when offering a job.

Financial rewards will also invariably be in the mind of individuals as long as these have not reached somewhat of a financial comfort zone. As long as individuals will be struggling to pay their monthly bills (utilities, mortgages, children school fees, public transport season tickets, etc.) it is hardly imaginable that these could pay lip service to the importance of their pay. Sometimes, this circumstance can also give rise to undesirable family tensions, which can in turn unconsciously affect employee performance and behaviour at work.

Despite money may not be considered a powerful motivator, its hygiene factor definitely still counts and has to be properly and constantly taken into consideration by employers and reward managers.

Considering financial and non-financial rewards separately the ones from the others, it could be concluded that financial rewards would be the winners of the attraction contest, whereas non-financial rewards would be the winners of the retention tournament. However, both of them clearly play a significant role in both competitions.

The synergetic, multiplicative effect produced by financial and non-financial rewards used in combination, can enable employers to attain in practice their intended objectives, namely to attract and retain quality staff. Total rewards approaches are key in this sense. This does not clearly mean that attracting and retaining quality individuals is a straightforward task. People wants and preferences are subject to change over time. Yet, many other employers strive to recruit high-flyers and quality individuals.

Using fairness, consistency and integrity is of paramount importance, but genuinely considering and taking into account employees needs is of crucial importance too. It is essential first and foremost to know employees and their needs; this is the starting point, differently any employer action and initiative would just reveal to be a waste of energies and resources. It would be like filling stores shelves with products that the manufacturer considers outstanding, but which customers do not like so that these remains and are destined to remain unsold in the stores shelves.

The role played by reward professionals, HR, line managers and consultants

Once reward strategy has been formulated, task which is usually executed by reward managers and professionals in close collaboration with HR executives or senior managers, this has to be translated into practices and policies, which need then to be implemented. This last stage is particularly important in that it is just on the execution phase that depends whether the policies formulated in writing will produce the desired and expected outcome in practice.

The function of reward professionals

The role of reward professionals in reward strategy and practices development is definitely central. In order to being capable of effectively and properly perform their important task, however, these clearly need to have an overarching knowledge of the business and of its culture, and of the different reward trends and theories which may help these to identify different possible solutions and, amongst these, the one mostly fitting the organization circumstances and ambitions.

To effectually undertake their work reward specialists should adopt a research approach aiming at investigating the business reward system and trying to determine effective and sound ways to regularly improve it. The findings of the investigation and the consequent emerged theories will be then the object of critical evaluation and study to determine whether these can be successfully and consistently applied to the organization (Longo, 2012). Care need to be taken both with theory and practice; as an anonymous once said "theory without practice is sterile, practice without theory is futile (in Armstrong, 2010)." This concept has even more effectively been expressed by McGregor (1960) who suggested that there is nothing as practical as a good theory; considering as theory an assumption supported by rigorous research carried out within businesses telling how things are and not how things are supposed to be.

This process has to be reinforced by the constant observation and analysis of the external environment, against which the internal circumstances have hence to be benchmarked. However, since the one-size-fits-all approach is not really likely to work in reward management, even though careful and constant consideration have to be paid to good and best practices, to identify the most appropriate solutions for their organization, reward specialists should better work according to the tenet of best fit (Armstrong, 2010).

Technical knowledge and expertise definitely represent mandatory requisites, but a good dose of creativity and innovation may reveal somewhat of a secret weapon enabling an organization to gain the competitive edge all employers strive to gain. These skills and competencies have to be constantly nurtured by reward professionals.

Once policies have been prepared these also need to be regularly reviewed and assessed in order to ensure that these are still consistent with the business strategy and in line with both the objectives pursued by the organization and the culture fostered within it.

The significance of HR

The role of HR, together with that played by reward professionals, can reveal to be of paramount importance. As it occurs when implementing all of the other policies, the full involvement of every single individual within the company is indeed necessary. In general, the main actors are represented by HR and line managers, but, in this case, reward professionals further support, albeit as part of the HR function, is paramount too.

The role of HR, as well as that of reward specialists, acquires a particular importance before, during and after reward policies implementation. HR in actual fact actively participates in the policies development process together with reward professionals, provides support and guidance to line managers during the implementation stage and, after policies implementation, assesses whether these are actually and effectively meeting the pre-identified objectives, that is, supporting the business and its performance.

The role of line managers

Inasmuch as line managers are extremely important in practice for the implementation of HR policies and indeed for whatever type of policy within a business, they also definitely are the individuals within each organization who better know the employees directly reporting to them. Unsurprisingly, these are by extension widely considered as the best positioned people to make decisions about their staff pay. In general, this assumption can be supportable; however there are a few aspects which need to be carefully taken into consideration.

The most immediate is associated with the circumstance that, in order to properly manage the process, line managers should have a thorough knowledge of the reward practices and system existing within the business. This knowledge is indeed necessary not only to properly operate in practice the system, but also to explain its mechanism to employees when required. Yet, managers are usually overwhelmed with their daily activities and it is unlikely that, even receiving the required training, these might have the time, and in some cases may even be the willingness, to deal with reward issues at this level. Essentially, managers could perceive their participation in reward implementation practices as a sheer additional burden distracting them from their core activities.

HR and reward professionals' help could definitely be beneficial; nevertheless, this collaboration may potentially produce some drawbacks. The circumstance that line managers would execute reward practices with the help of HR and reward professionals might in fact be interpreted by employees as a consequence of their managers' inability to autonomously perform these activities or as a restriction to their leeway. Even more so, when line managers have already been fully devolved this activity and subsequently this has been taken back by HR and reward specialists. This may indeed be perceived by employees as their manager loss of authority and prestige and could in turn cause employees' loss of trust on their managers.

This process has been effectively described by Brown and Purcell (2007):

- Line managers receive growing responsibility for managing, with marginal HR support, even complex pay processes,
- These hence experience hardships to deal with the process, also for lack of the required skills,
- HR therefore needs to take back responsibility of the process with the consequence that line managers feel undermined their role and lose their direct reports trust and respect.

This is a real conundrum for employers and reward managers, but the recipe suggested by Armstrong (2010) could actually help these to properly and effectively tackle the issue:

- ✓ Train managers ability to identify and properly manage the key aspects they have to deal with to make pay-related choices,
- ✓ Provide them clear, simple and specific guidelines to drive their decisions,
- ✓ Offer them constant assistance to properly implement these.

It is, however, of paramount importance that HR would invariably support line managers in a discreet, non-invasive and non-intrusive fashion.

Teamwork is paramount

As maintained by Armstrong (2010), HR should mainly offer line managers suggestions and provide them guidance. Yet, HR should also make sure that managers' decisions are unbiased and that these are actually putting in practice what they have learned in theory during the training sessions provided by the employer. Whether some problems should arise these should be carefully tackled by HR and appropriate action timely identified and planned with the help of reward specialists. Once again, it is crucially important that these activities are all carried out as inconspicuously as possible.

The circumstance that line managers, HR and reward specialists work and collaborate together, however, may and should not necessarily been negatively perceived by line managers and their staff. The role played by HR and reward professionals is that to support line managers in an activity requiring an expertise and skills which not necessarily are part of all managers' know-how and background. Organizational culture can clearly help and, possibly, such approach to reward practices implementation may in turn help and sustain organizational culture. Whether employers should in fact aiming at fostering within the business teamwork and, more in general, the importance of collaborating the one with the others for the attainment of a common objective, this approach could definitely reveal to be particularly helpful. HR and reward professionals will support line managers with their expertise and technical knowledge in order to these making appropriate decisions on the basis of a structured approach aiming at ensuring consistency and fairness to the process across the organization. The final decision, however, will always rest with line managers.

Communication, as usual, can definitely reveal to be crucial. Openly communicating the reason of such collaboration amongst functions, clearly pointing out and explaining that it is not a matter of control or dominance of a function or role over the other, should prevent to jeopardize line managers' standing and authority, whereas conferring to the reward practices implementation process much more consistency and uniformity across the business. Indeed, the discreet presence of HR and reward professionals could also help to audit the system and ensure consistency and uniformity of reward practices execution and application across all the business functions, departments and units.

Reward practitioners

Reward practices could reveal to be particularly effective to support employers in attaining business strategy, encouraging desired behaviour, stimulating sustained performance, fostering organizational culture and ultimately promoting integrity. Reward managers and specialists need hence to have the skills and expertise required to understand the business and the employer's needs and expectations, making it possible these to be met. Develop appropriate reward systems and support the employer in its struggle in the market competition, ensuring that this gains genuine competitive edge, represent tasks that reward specialists should absolutely capable to effectively manage.

Formulating sound reward policies and devising appropriate pay systems requires individuals in charge of these activities to have a combination of different professional skills: technical expertise, a deep understanding of the business and of the way it is run, project management skills, capability to innovate and support change and the ability to think and act strategically can all be nowadays considered mandatory. Organizations cannot invariably have internally the required know-how and capability necessary to execute such important and complex activities. Multinationals and big corporations usually have structured HR functions where reward executives and managers have the experience and expertise to take care of these aspects, but mid-size and smaller organizations could find it particular expensive and, according to the circumstances, inappropriate to structure their HR functions including high-calibre reward specialists. For these organizations having recourse to external practitioners and consultancies represent therefore the best option to manage the most complex aspects associated with reward management.

Having recourse to external consultancies may reveal to be the most effective solution especially when the employer wants to ensure, and give evidence to employees, that decisions have been fair and made by acknowledged professionals whose activities could not be affected by any means by bias.

The choice of external consultants, however, has to be done very carefully. First and foremost, employers should ensure that the individuals practically working with the business, and not the consultancy's senior partners, have the required capabilities to carry out the job. It is also important that employers would do their utmost to find out from the outset whether the estimate timeline and costs proposed by the consultants are actually realistic and sustainable. In order to ensure that plans unfold as scheduled employers should also require that some meetings would be held regularly. The frequency of these meetings should be planned on the basis of the project milestones in order to assess and review results and ensure that costs remain within the forecasted budget (Armstrong, 2010).

The past, present and possible future of reward – Summary and hypothesis

The past and present of reward

Over the years the concept and idea of reward have changed and evolved considerably. Whilst employers have been used to pay their staff with money for centuries it is in fact only relatively recently that the need to resort to a well identified and specific reward strategy, helping organizations to attain their intended business objective, has emerged and developed (Torrington et al, 2008).

From the wording point of view, it could be argued that the current term "reward" has actually replaced the older terms "payment" and "remuneration." Nonetheless, it is not clearly only the terminology which has changed over time, but rather and most importantly the meaning, concept and idea associated with each term. Whether the term "payment" appropriately reflects the role once played by money, which constituted the only form of payment or remuneration made by employers to individuals in return for their working activity, the term "reward" expresses the overarching idea of "package", including all of the elements of financial and non-financial rewards offered by employers to their staff (Longo, 2012).

The evolution of the idea of payment into reward has been made possible by reasons of the declining role once played by unions in salary negotiations. As long as employee salaries were bargained by employers with unions, very often even at industry or national level, employer autonomy to shaping reward systems and packages was considerably reduced (Torrington et al, 2008). Indeed, there are still some countries, mainly in Europe, where the influence and bargaining power of unions restricts employers ability and autonomy to design, develop and implement effective reward packages enabling them to achieve their organizations overall business strategies.

Firms can clearly still autonomously agree with individuals variable pay and incentives, but these have to be provided in addition to what employers have already agreed at industry, national and even local level with unions. In such circumstances, incentives, bonuses and whatever other form of contingent pay will be clearly granted to staff at an additional cost on top of the overall personnel budget already determined by employers on the basis of the salary ranges bargained, irrespective of their geographical capacity, with trade unions. Whether employers should be put in the position to freely use their overall personnel budget, they would clearly use it differently. Rather than implementing and running essentially length-of-service-based pay systems, employers would definitely prefer, for instance, establishing contingent pay systems or, anyway, the type of system they consider as the most appropriate to enable them to more properly and effectively influence their staff actions and foster the behaviour they regard as the most appropriate to the attainment of their intended strategy. In such circumstances, additional pay will no longer be taken as axiomatic and as the sheer fruit of unions' negotiations with the employer, but would rather be regarded as at risk and as such needing to be re-earned (Longo, 2012).

Nonetheless, the fact that in the past and for centuries, differently from what happens today, the only form of compensation provided by employers to their staff in return for their work was exclusively represented by money can definitely be taken for granted.

The psychological contract
Considering the employee's point of view and expectations it must also be added that at the beginning, and also in this case for centuries, the psychological contract at the basis of any working relationship was essentially based on fair terms and conditions, job stability and fair treatment.

Individuals were essentially expected to receive a salary in exchange for their working activity on the basis of a written contract of employment and to be treated fairly and enjoy job stability, which very often generated the idea of a job for life (Porter et al, 2006), on the basis of the expectations generated by an unwritten contract, namely the psychological contract. Employers on the other hand were expected that their employees would have contributed as better as they could to the organizational success, would have been committed to the firm values and would have been loyal and compliant to these (Armstrong, 2009).

Subsequently, in order to: make staff even more loyal, ensure that employees would have invariably strived for the attainment of organizational success, reward good performers, retain good staff and attract new skilled individuals employers started offering to employees, in addition to base pay, benefits, bonuses and other forms of financial recognition.

Notwithstanding, possibly by reason of human nature, the more individuals are used to have, the more they aim and long to have, Maslow's hierarchy of needs (1954) and Alderfer's Existence - Relatedness - Growth (ERG) theory (1972), just to name a couple of models, are self-explanatory in this sense. Whilst HR professionals and academics were investigating the impact and effects of financial reward on employee performance (investigation actually still underway), individuals were starting to develop and attribute a different meaning and content to the psychological contract. More specifically, employees, after having considered job stability and receiving a salary as the glaringly obvious, started to associate a high level of importance with some other additional elements such as: training, personal and professional growth and career prospects; which is clearly good for organizations too. The psychological contract was then changing and employers had to adapt their offering accordingly (Longo, 2012).

The role of money

As we have seen earlier, the findings of the numerous investigations and studies carried out over the years on this subject have led to different and contrasting results.

The role played by money as an effective motivator was considered, to put it mildly, disputed before the international financial crisis burst in 2008. Notwithstanding, the results provided by a study carried out by Jurgensen (1978) amongst 50,000 job applicants over a considerable period of 30 years, had revealed that although men considered pay as the fifth most important characteristic of a job and women considered pay as the seventh most important factor, when the same individuals were asked to rate the importance, in their opinion, pay would have had for the other people with their same characteristics (education, age, gender, etc.), pay reached the top of the table both for male and women panellists. Basically, the vast majority of individuals surveyed assumed that pay was very important for everyone but themselves.

Another relevant aspect which is definitely worth to be brought to notice, still on the subject of the meaningfulness and reliability of the findings produced by these types of investigations, concerns the methodology used. As suggested by Slovic and Lichtenstein (1971), when answering surveys' questions people tend at large to underrate factors such as pay, which are considered socially less important, to attribute more importance to those factors which are mostly appreciated as socially relevant. Lawler (1971) argued that investigations can consequently lead to different conclusions according to the different methodologies used.

As in many other different types of circumstances, the real true is possibly in between: people need and work for money, but in the long run the influence of money is likely to weaken. Which is what Herzberg's (1957, 1968) two-factor theory basically established. This idea is also effectively summarised by Pfeffer (1998) who claimed that individuals work for money, but also "work to have fun" insofar as organizations overlooking this aspect will see their staff lack of loyalty and commitment to remarkably increase. Similarly, Furnham (2006) claimed that money is not the most important thing and that individuals could be happier "with more time off, or more job security. People are prepared to trade-off things for money once they have enough or grow weary of the game." To some extent Furnham seems actually to refer to the same idea expressed by Herzberg. When stating in fact that people are willing to turn money into time-off he also pointed out "once they have enough" (of money). Herzberg considered money a weak motivator in the mid- to long-term accepting, therefore, that in the short run money might have its importance too. This can be associated with the concept that after a period of time, when individuals have acquired financial stability and money is no longer a reason for concern, they need and seek something else. Again, this recalls us to mind Maslow's hierarchy of needs main tenet.

The impact of the external environment

The role played by the exogenous environment has not to be overlooked by any means. As the last global financial crisis taught us, employee perception of reward is definitely affected by the overall financial and economic climate, which by extension clearly plays a considerable role on people's attitude to, and perception of, money. The effects caused on individual motivation by unexpectedly having less money than usual, due to their reduced purchasing power, are inevitable; that is why employers, especially during downturn periods, should take extra care with properly communicating to their staff their pay decisions. It will not possibly help businesses to completely overcome the problem, but if anything it can surely help them to cushion the blow. Findings of the CIPD "Employee attitude to pay – 2011" survey (CIPD, 2012), revealed that employers are not that much sensible to this aspect, whereas employees are. The net satisfaction score attributed by respondents to the explanation provided by their employers about their pay decisions in fact decreased from +40 in 2010 to +32 in 2011.

It is not only the economic factor which needs to be considered, but, amongst the others, also the social one. Generation Y people, for instance, are in general considered to be particularly sensitive both to the financial reward aspect and to the work-life balance one, even though also in this case the aftermath of the past downturn altogether with the effects of the succeeding slowdown seem to have had a remarkable impact on their attitude towards job (Longo, 2012).

The ageing population phenomenon definitely represents an additional aspect employers have to duly take into consideration. Albeit the current organization's workforce may be predominantly formed by young o relatively young individuals, the moment come, employers have to be prepared to plan and implement the appropriate measures to make their stay and work in the organization as comfortable and as productive as possible.

The introduction of non-financial reward

The contrasting results provided by the large number of investigations carried out over the years on the motivating effects of money suggested employers to extend and vary the composition of their reward packages, pushing them to add to the financial component of reward a non-financial component. After all, motivating individuals only having recourse to money should have very soon revealed for employers a bottomless pit, whilst providing staff with training and opportunities for development and growth would have rapidly turned to be useful and productive. Well trained and more skilled and motivated individuals can unquestionably more effectively contribute to the organization's attainment of competitive edge (Longo, 2012).

Parallel to the introduction of non-financial rewards, employers also started paying particular attention to the concept of intrinsic rewards; that is, those benefits that individuals receive from performing their working activities and from understanding the significance and worth of their contribution to organizational success.

The changing content of the psychological contract

Thanks to the introduction of non-financial rewards and to the growing attention paid by employers to the benefits provided by intrinsic rewards, employees become the more and more involved with their job activities. They want to carry out compelling jobs, influence the way these have to be performed and deliver results. Yet, individual level of expertise and capability have increased sensibly, employees feel extremely enriched and confident insofar as they are no longer seeking for job stability; the skills these have gained let them in fact feel confident in terms of employability. The last phase of the psychological contract evolution hence also includes the transition from job stability to employability (Longo, 2012).

As discussed in several occasions above, individuals are different one another and consequently have different needs, but individual preferences are also subject to change with the passing of time, with many external factors (namely: social, economic, technological, legal, etc.) likely to make a considerable impact. In the domain of reward management practices, the one-size does not really fits all.

There are clearly other factors to duly take into consideration when deciding how to reward whom. Individuals with low Growth Need Strength (GNS), for instance, are likely to prefer more generous financial reward packages and more comprehensive flexible working practices to personal growth and development prospects. Offering to these opportunity for development and career could even turn to be counterproductive (Longo, 2012).

Essentially, each individual is expected to receive from his/her employer what is included in his individual psychological contract, but we are looking at an unwritten contract so that, as suggested by Spindler (1994), individual expectations are implicit and neither stated nor defined; "employers and employees expectations take the form of unarticulated assumptions" (Armstrong, 2009). Trying hard to transform these assumptions in clear ideas is one of the most challenging aspects of reward management employers have to tackle, closely assisted by reward professionals.

Total reward can definitely help

Total reward can definitely enable employers to put in place programmes helping them to provide individuals with a mix of rewards capable of satisfying the needs of all of their staff, but in order to properly operate these it is definitely crucial to find out what individuals actually want. Total reward can help employees to manage the how side of reward, but, as just mentioned above, it is also of paramount importance to properly investigate in what individuals are actually truly interested. This knowledge will clearly also help reward professionals to design and develop reward packages consistent and coherent, from the composition point of view, with individual expectations, namely enabling them to formulate a value proposition based on what individuals would actually like to receive (Longo, 2012).

Total Reward Statements' support

After having developed basic, variable and contingent pay systems, the ultimate tool used by businesses to enhance the effects of their reward packages has been represented by total reward statements. Statements, providing employees a personalized, detailed indication of what their take-up is worth, do not actually add any intrinsic value to what employees already receive from their firms, but aim at stressing and emphasizing that value (Longo, 2012).

Even in those circumstances in which employers are experiencing hardships, irrespective of these being due to the pressures exerted by the endogenous or exogenous environment, and employers cannot make any extra effort to come up with additional forms of reward, stressing by means of total reward statements the worth of the packages already offered can really reveal to be important.

The likely future of reward

For a whole range of reasons and according to the changing, different circumstances, extending employers reward offering is clearly everything but straightforward; however, this does not mean that there is no room for improvement. Reward specialists should literally squeeze their brains in order to come up with brand new and attractive reward options which could also possibly be inexpensive for employers, albeit this could apparently sound rather contradictory. In order to attain good results reward specialists need to investigate new opportunities which can arise working, for instance, side by side with tax and financial experts. Additional sound reward solutions can in fact still be found in terms of flexible and voluntary benefits, especially for the undeniable positive effects these can produce both for employees and employers in terms of NI savings.

In period characterised by financial hardships, for example, the agreements cut by employers with collective buying communities and staff discounts on household bills can turn to be particularly useful and welcomed by staff. This type of offering could actually appear to be particularly attractive to employees especially in those circumstances in which a high rate of inflation weakens and reduces their purchasing power. Such kind of initiatives might also effectively contribute to keep employee interest focused on personal development and job improvement, ensuring hence individual satisfactory performance and a better organization's performance as well (Longo, 2012).

The future of Total Reward

It can be taken as axiomatic that in the future the total reward approach will hold being the approach of choice. Whatever the future development of reward, the total reward approach is the only approach enabling organizations to properly, promptly and effectively adapt their offering to the changing content of the psychological contract. This is indeed the only method enabling employers to provide to their human capital a comprehensive and adequate reward offering whose content can promptly be moulded according to the workforce changing needs (Longo, 2012). This approach to reward management can also properly and effectively enable employers to actually anticipate employees changing wants and preferences.

Considering reward more extensively, or rather, reward from the reward management point of view, there are three pillars to reward management which can be considered still crucial and significant for the future of reward, namely: integrated reward, strategic reward and evidence-based reward management.

Integrated reward management

Integrated reward management is an approach according to which, as suggested by White (2005), each single element of reward supports and reinforces one another in order to help organizations achieving their intended objectives.

This integration, however, has not to be pursued just taking into account reward practices and policies, that is, just considering reward integration, but also considering the vertical and horizontal integration opportunities. The concept of vertical integration relates to the need to integrate and align reward strategy to the business overall strategy, whilst the horizontal integration stresses the importance of integrating reward strategy with HR strategies, in particular with those concerned with engagement, talent management, learning and development and high performance (Armstrong, 2010).

Strategic reward management

It will also clearly be part of the future of reward the strategic approach to reward management, according to which a structured approach is necessary and planning in advance, for avoiding to suddenly having to deal with the unexpected and not being prepared for that, is considered crucial.

As claimed by Brown (2001), strategic reward management is intended "to create reward processes which are based on beliefs about what the organization values and wants to achieve." Strategic reward is basically concerned "with both ends and means" of reward and aims at determining how reward procedures will be in the future; it also aims at supporting reward management integration (Armstrong, 2010).

Evidence-based reward management

The third pillar of the future reward systems is represented by the evidence-based approach, that is, an approach "based on facts rather than opinions, on understanding rather than assumptions" (Armstrong, 2010). This approach will enable reward specialists to answer without hesitation to the question: "How do you know what you think you know?" which is the question that logical positivists considered crucial to answer when exploring beliefs (Ayer, 1959).

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