Employee Reward

Purpose

Employee Reward covers how people are rewarded in accordance with their value to an organisation. It is about both financial and non-financial rewards and embraces the strategies, policies, structures and processes used to develop and maintain reward systems. The ways in which people are valued can make a considerable impact on the effectiveness of the organisation and is at the heart of the employment relationship.

The aim of employee reward policies and practices is to help attract, retain and motivate high-quality people. Getting it wrong can have a significant negative effect on the motivation, commitment and morale of employees. Personnel and development professionals will be involved frequently in reward issues, whether they are generalists or specialise in people resourcing, learning and development or employee relations. An integrated approach to human resource management means that all these aspects have to be considered together so that a mutually reinforcing and interrelated set of personnel policies and practices can be developed.

Personnel and development practitioners are expected to play their part alongside line managers in maximising the contribution of people to the achievement of corporate purposes. They must understand the business context and the importance of adopting a strategic viewpoint when meeting business needs in partnership with their colleagues.

This Standard defines how thinking performers can meet these requirements in the field of employee reward. It is relevant for:

- any personnel/human resources practitioner at a relatively early stage in their career, responsible for a range of basic personnel operations and wanting to develop deeper and broader knowledge and skills and make a professional contribution to the employee reward process
- externally-based consultants providing advice and services in many organisational types, sectors and settings.
Performance indicators

1 The employee reward contribution

Operational indicators
Practitioners must be able to:

1 Contribute to the identification of an appropriate employee reward strategy from an analysis of an organisation’s corporate strategy, and take part in the preparation of reward plans.

Knowledge indicators
Practitioners must be able to understand, explain and critically evaluate:

1 The process of reward management; its components and aims.

Indicative content
1 The concept of an employee reward system, and its component processes, practices, structures, schemes and procedures.
2 Elements of employee reward and their interrelationships, including base pay, contingent pay, allowances, total earnings, employee benefits, total remuneration, non-financial rewards and recognition schemes.
3 The role and aims of employee reward in the context of the organisation’s corporate and personnel and development strategies.
4 The impact of minimum wage legislation.

2 The conceptual framework

Operational indicators
Practitioners must be able to:

1 Assist in preparing an employee reward policy statement and specify a process for ensuring its continuous review.
2 Participate as a team member in consultation or bargaining about the design, implementation and operation of a pay system.

Knowledge indicators
Practitioners must be able to understand, explain and critically evaluate:

1 The concepts of reward system, reward structure and reward levels.
2 The role of reward strategies and policies in an organisation, and their potential for supporting change when integrated with personnel and organisational strategies and policies.
3 The factors affecting reward philosophies, strategies, policies, practices and levels of pay in organisations in the public, private and voluntary sectors, including pay determination through collective bargaining.
4 The key economic, psychological and motivational theories that influence reward policies and practices.

Indicative content
1 The corporate, national and international context; the impact of the internal and external environments, including national and global competition, on reward strategies and practices.
2 The influence of organisational culture on reward strategy and practices.
3 The key economic theories and concepts that affect reward policies and practices and rates of pay, including:
   • external and internal labour markets
   • supply and demand
   • efficiency wage theory
   • human capital theory
   • agency theory.
4 The psychological contract and its significance and impact on reward practices.
5 Motivation theory, especially expectancy theory and goal theory and:
   • the significance of the concepts of intrinsic and extrinsic motivation
   • the link between money and motivation.
6 The role of financial and non-financial rewards in a total reward system.
7 The significance of the concepts of equity, fairness, consistency and transparency as they affect reward policies and practices.
### 3 Employee reward processes

**Operational indicators**
Practitioners must be able to:

1. Provide accurate and timely advice to line management, colleagues and employees on all aspects of employee reward policy and practice and the composition of an individual's reward package.

**Knowledge indicators**
Practitioners must be able to understand, explain and critically evaluate:

1. The part that financial and non-financial rewards play in attracting, retaining and motivating people.
2. The factors that influence employee satisfaction with their rewards and the reward system, such as equity, fairness, consistency and transparency.

**Indicative content**

1. Reward philosophies and their influence on reward strategies and policies.
2. Reward strategy and:
   - key features
   - integration with corporate and personnel strategies
   - developing reward strategies.
3. Reward policies and issues such as:
   - pay stance
   - reconciling the needs for internal equity and external competitiveness
   - formulating policies.
4. Reward planning and:
   - auditing and analysing the reward system
   - diagnosing key issues
   - developing the system.
5. Approaches to employee reward in a range of organisations and new developments in this field.

### 4 Job evaluation

**Operational indicators**
Practitioners must be able to:

1. Advise senior management on:
   - whether to introduce job evaluation and take part in the design and implementation of an appropriate scheme
   - the design or modification of a pay structure and methods of introducing it
   - general and individual pay reviews.

**Knowledge indicators**
Practitioners must be able to understand, explain and critically evaluate:

1. The objectives and limitations of job evaluation processes.

**Indicative content**

1. The purpose and key features of job evaluation processes.
2. Basic methodology and:
   - selecting benchmark jobs
   - deciding evaluation factors.
3. The techniques of job and role analysis, and the assessment and definition of competence and capability.
4. Types of job evaluation, including:
   - non-analytical approaches such as ranking, job classification, internal benchmarking
   - the analytical approach (point-factor rating)
   - market pricing.
5. The advantages and disadvantages of each type in different contexts.
6. The limitations of job evaluation, especially in a flexible or process-based organisation.
7. Computerised job evaluation systems.
8. Introducing and maintaining job evaluation.
5 Pay and benefit surveys (external benchmarking)

Operational indicators
Practitioners must be able to:

1. Contribute to local or national pay and benefit surveys.

Knowledge indicators
Practitioners must be able to understand, explain and critically evaluate:

1. The concept of a market rate in local and national labour markets.

Indicative content
1. The concept of a market rate.
2. Sources of data.
3. Criteria affecting the quality of data.
4. Presenting, interpreting and using the data.

6 Pay structures

Operational indicators
Practitioners must be able to:

1. Promote fairness in reward practice and:
   - help to analyse a pay structure to assess whether it contains sex or other discrimination, and suggest ways of ensuring that a job evaluation scheme is free of bias
   - conduct an equal pay audit to identify any cases of pay discrimination and advise on methods of eliminating them.

Knowledge indicators
Practitioners must be able to understand, explain and critically evaluate:

1. The criteria for an effective pay structure and contingent pay schemes.

Indicative content
1. The purpose of a structure, and criteria for effectiveness.
2. Types of structure, including:
   - graded
   - broadbanded
   - job family
   - pay spine
   - spot rate.
3. The advantages and disadvantages of each type of structure in different contexts, and factors affecting which to choose.
5. Designing, introducing and operating pay structures, taking into account the need for equity, fairness, consistency, transparency and external competitiveness, and the need to manage change.
7 Pay discrimination and equal pay

Operational indicators

Practitioners must be able to:

1. Promote fairness in reward practice and:
   - help to analyse a pay structure to assess whether it contains sex or other discrimination, and suggest ways of ensuring that a job evaluation scheme is free of bias
   - conduct an equal pay audit to identify any cases of pay discrimination and advise on methods of eliminating them.

Knowledge indicators

Practitioners must be able to understand, explain and critically evaluate:


Indicative content

1. Reasons for pay discrimination.
2. The legal framework and:
   - Article 141 of the Treaty of Rome 1957
   - the Equal Pay Act 1970
   - the Equal Pay (Amendment) Regulations 1983
   - leading British and European cases
   - the impact of legislation and case law.
3. The Equal Opportunities Commission Code of Practice on Equal Pay.
4. Designing and introducing a non-discriminatory pay structure.
5. Developing job evaluation schemes free of sex or other bias.
6. Processes for auditing and monitoring equal value issues.

8 Contingent pay

Operational indicators

Practitioners must be able to:

1. Analyse the case for or against the introduction of a contingent pay scheme (paying for performance, competence, contribution or skill) and advise on its introduction, implementation and auditing.

Knowledge indicators

Practitioners must be able to understand, explain and critically evaluate:

1. The factors that influence employee satisfaction with their rewards and the reward system, such as equity, fairness, consistency and transparency.

Indicative content

Paying for performance, competence, contribution or skill

1. Arguments for and against contingent pay.
2. Criteria for contingent pay.
3. The development and introduction of contingent pay schemes and the management of the change processes involved.
4. The nature, advantages and disadvantages of various forms of individual contingent pay and circumstances when each might be appropriate, including:
   - individual performance-related pay
   - competence-related pay
   - contribution-related pay
   - skill-based pay.
5. Shop-floor incentive schemes and:
   - piecework
   - work-measured schemes
   - measured day work
   - performance-related pay.
6. Team pay – its features, advantages and disadvantages and the requirements to be met when introducing it.
7. Rewarding organisational performance and:
   - profit-sharing
   - gain-sharing
   - profit-related pay
   - employee share schemes.
9 Performance management

Operational indicators

Practitioners must be able to:

1. Advise on the management of change when introducing or modifying elements of the reward system.

Knowledge indicators

Practitioners must be able to understand, explain and critically evaluate:

1. The principles underlying performance management.

Indicative content

1. Issues concerning the agreement of performance objectives and standards and their role in measuring effective performance.
2. Problems of assessing and measuring outcomes.
3. The aims, nature and processes of performance management.
4. Performance management as a means of valuing people.
5. Links between performance management and pay.
6. The process and methods of performance rating, methods of rating and arguments for and against it.

10 Managing the reward system for special groups

Operational indicators

Practitioners must be able to:

1. Take part in processes to involve employees in the design or modification of reward systems and advise on methods of achieving transparency by communicating to employees on reward issues and practices.

Knowledge indicators

Practitioners must be able to understand, explain and critically evaluate:

1. New developments in employee reward and their application within the organisation.

Indicative content

1. Directors and senior executives:
   - executive incentive, bonus and share-option schemes
   - the impact of the Cadbury, Greenbury and Hample reports
   - the role of remuneration committees.
2. Expatriate rewards and:
   - home-based and host-based approaches and their respective advantages and disadvantages
   - tax considerations, allowances and benefits.
3. The nature, advantages and disadvantages of systems for sales and customer service staff, including minimum wage issues and:
   - basic salary
   - commission only
   - salary plus commission
   - bonus schemes
   - other methods of motivation.
11 Employee benefits and pensions

**Operational indicators**
Practitioners must be able to:

1. Evaluate the case for introducing flexible benefits.

**Knowledge indicators**
Practitioners must be able to understand, explain and critically evaluate:

1. The basis on which flexible benefit systems work.

**Indicative content**
1. Employee benefits policy and strategy, its aims and development and:
   • types of benefit and how to choose appropriate benefits
   • administering benefits
   • auditing the benefits system
   • controlling benefit costs.
2. Designing appropriate benefit packages for different occupational groups; evaluating the case for harmonising benefits; single status.
3. Designing, developing, implementing and reviewing a flexible benefits system.
4. The influence of government policy, including taxation on benefits policies and share schemes.
5. Basic features of pension arrangements and:
   • social and demographic issues, including equalisation
   • state and occupational provision, and issues of portability in a flexible labour market
   • characteristics of defined-benefit and defined-contribution schemes, and arguments for and against each
   • stakeholder pensions
   • providing information and advice to employees, to comply with the Financial Services Act 1985 and the Pensions Act 1995.

12 Managing and administering employee rewards

**Operational indicators**
Practitioners must be able to:

1. Contribute to the administration of employee reward policies and processes and evaluate effectiveness and value for money.

**Knowledge indicators**
Practitioners must be able to understand, explain and critically evaluate:

1. The use of computer modelling in costing alternative reward policies and proposals.
2. The skills line managers need to implement reward practices and policies and how these skills can be developed.

**Indicative content**
1. Responsibility for employee rewards and for their administration and:
   • the role of the personnel professional
   • devolving responsibility for employee reward to line management.
2. Employee reward procedures for:
   • grading jobs
   • determining levels of pay on appointment or promotion
   • hearing appeals.
3. Preparing employee reward forecasts and budgets, costing the changes and ensuring value for money.
4. Conducting general and individual pay reviews.
5. Monitoring and evaluating reward policies and practices.
6. Advising managers on pay practices and decisions.
7. Communicating to employees:
   • collectively on reward proposals and policies
   • individually on pay arrangements that affect them.
8. Involving employees in the development of reward systems.
9. Employing reward management consultants.
10. Using IT as a tool for administering employee rewards, including computer modelling to calculate the costs of alternative reward policies.