How to develop a Reward Strategy

How do you attract and keep high quality staff? What mechanisms help in recruitment, retention, engagement and development of employees so that they perform and deliver at their highest potential and therefore make the organisation successful?

The first question to ask is: what motivates people to work? Why spend time and talent in the service of an organisation, even if it's your own organisation when self-employed? Because there is some 'reward' to do so.

At face value, people work because they gain an income to spend on their individual, family and community needs. Some needs are the essentials of life, what humans need to survive physiologically. Maslow defined the hierarchy of needs with fundamental physiological needs at the base and rising through safety, social needs and culminating in the need for self-fulfilment. Herzberg distinguished between firstly ‘hygiene’ extrinsic factors such as pay and organisation policy and procedures that will cause dissatisfaction in the workplace if absent or insufficient. Secondly, ‘satisfiers’ which are intrinsic factors such as the ‘value’ of the work, achievement, recognition, responsibility and potential for growth which will positively motivate people.

Since Maslow and Herzberg were published over 50 years ago, other theories of motivation have been developed. These tend to centre on cognitive or process theories – how people think about their ‘reward’. Expectancy theory identifies two factors of value and probability. People value reward in terms of how well it satisfies their needs of security, social esteem, fulfilment and autonomy. Inevitably people value different elements differently, which suggests reward must include a mix. Expectancy is the probability that reward depends on effort – the more effort, the higher the reward. For that effort to be helpful to the organisation, individuals need to have the appropriate ability and the correct perception of their role. This emphasises the need for clear role definitions and understanding, effective learning and development interventions and a link between performance and reward (not necessarily performance related ‘pay’).

Two other theories of motivation are important to consider. One is goal theory as developed by Latham and Locke which states that both performance and motivation are higher if mutually agreed, challenging and monitored goals are set and feedback given on achievements. The second is Equity Theory which suggests that people are more motivated when they are treated equitably and demotivated if they receive or perceive inequitable treatment. This connects to the ‘felt-fair’ concept that pay systems are fair if they are felt to be fair.

Extensive research and studies on reward strategy has shown that people are complicated and motivation is a complex process. What is clear is that while financial reward is important, for most people other factors are also, and can be more, important. These can be brought together under three sections:

- **Equity** – the perception of being treated fairly both in comparison to others and in terms of the effort and skills brought to the role
- **Self-fulfilment** – that people are recognised for what they do and encouraged to reach their potential through effective learning and development processes and given feedback on their performance
- **Organisation culture** – roles are clear and organisational and personal values are in alignment so that employees engage and enjoy work (as much as is possible)
Another way to consider the necessary components of rewarding people is to view them as individuals, within their team, in the organisation and generally in the workplace:-

- Recognition – being appreciated, not taken for granted, having a voice
- Work/life balance – accepting and encouraging that there is a world beyond the workplace
- Organisational culture – being able to engage and fit with the organisation in terms of its values and how things are done
- Employee development – being enabled to develop personal skills and understanding for current and potential future work
- Environment – having a ‘good place’ to work in terms of physical layout, equipment, health and safety and security

‘Total reward’ addresses this complexity in bringing together financial aspects of reward of basic pay, any bonuses and additional financial benefits with the non-financial benefits at the personal and organisational level. This is a helpful concept, especially because it acknowledges the limits of purely financial reward and identifies other areas that can be addressed, in particular when salary budgets are limited for economic or values reasons.

Depending on the organisational context and values, not all elements as described in the diagram above will apply. However it neatly differentiates between financial and non-financial rewards and between total remuneration and total reward.

Reward is more than pay and benefits. Therefore a reward strategy must consider many aspects of the workplace in order to both attract and keep high quality people doing the right things in the right way so that they flourish and the organisation is successful.

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