



UNIT-5

Rewarding Employees

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Identify the motivational aspects of Reward System
- ✓ Explore the Reward System
- ✓ Identify the Types of Reward & Employee Ownership

Unit 5

Rewarding Employees

Reward systems and their role in organisations have been studied from many perspectives and by multiple disciplines. Economics, sociology and psychology, in particular, have contributed to the growing literature on reward systems. Reward systems have a wide-ranging impact on organisations, and that their impact is greatly affected by their design and by the organisational context in which they operate. Thus, to understand pay systems in organisations, it is necessary to focus on the characteristics of both the organisation and the pay system. Often new lines of business require a different approach and therefore a different reward system. Simply putting, the old reward system in the new business is often not good enough and indeed can lead to failure. On the other hand, developing a new reward system for one part of an organisation can cause problems in other parts because of the comparisons made between different parts.

Motivational Aspects

Reward management is about the development, implementation, maintenance, communication and evaluation of reward processes. A substantial literature does exist that focuses on the relationship between reward systems and the degree to which participative management is practiced. If an organisation wishes to operate in a participative manner, it needs to change all its systems, including its reward system.

An understanding of motivation is important within reward management and the development of reward strategies for a multitude of reasons. Firstly, it enables organizations to 'humanise' work for employees so that work is inherently more satisfying, the assumption being that organisations have a moral obligation to make work as satisfying and enjoyable as possible. Secondly, an appropriate understanding of motivation allows organisations to make the jobs more satisfying for employees within the company. The underlying assumption is clearly that if employees are happier at work then they will be more productive. Finally, we argue that such an understanding enables management to control the behaviour of subordinates more effectively and therefore enables management to 'pull the right strings' in order to secure the ability to set the organizational goals and secure their achievement.

What is Motivation?

At a basic level it can be seen that motivation is about 'motives' and 'needs'. Motives are the internal drives and energies of an employee; they direct behaviour, which results in outcomes. Any single outcome (higher performance levels at work) may be the result of multiple motives (the feeling of achievement, the desire to purchase a new car). Needs as internal drives are also important and can be

physiological (I need sleep, I need warmth), social (I need the company of others) or based on self-esteem needs (I need to gain the respect of my peers for what I do) . The important components of designing a total reward system are made up of the following sections:

- Determining the *strategic elements of reward* and how they link with other aspects of human resource.
- Summarising the *component parts of the reward package*.
- Designing *basic pay structures* through job evaluation systems, market tracking and competence approaches.
- Deciding which aspects of *pay for performance* schemes should be implemented and under which conditions.
- Constructing a *benefits package* which fits the needs of both the organisation and the employees.

The Influence of Motivation Theory

There is no doubt that money motivates in many ways for many people most of the time but certainly not everybody all of the time. Even more perplexing, money can motivate up to a certain level but this differs greatly between individuals. The reward area remains an area of conflicting policies. Much of the private sector has adopted the expectancy and goal-setting approach, and aims to motivate the majority of its employees through pay for performance schemes based on the achievement of goals. In the public and voluntary sectors, on the other hand, the picture is very mixed with needs theories mostly to the fore and much concentration on the intrinsic satisfaction related to the job. To develop a loyal and motivated workforce, companies of all sizes must create competitive compensation and benefits packages. Establishing an effective compensation programme for your company should start with a pay philosophy closely linked to the firm's business strategy. This philosophy should reflect the organization's culture as well as its long-term goals.

Companies must decide, for example, whether they want to set salaries on par with other firms in their area or if they want to position themselves as premium employers that will pay more for talent. Companies that feel they lack the ability to compete on salary alone may choose to distinguish themselves by offering unusual perks to employees.

Reward Systems

One of the important attributes of work organisation is its ability to give rewards to their members. Pay, promotions, fringe benefits, and status symbols are perhaps the most important rewards. Because these rewards are important, the way they are distributed have a profound effect on the quality of work life as well as on the effectiveness of organisations. Organizations typically rely on reward systems to do four things:

- 1) motivate employees to perform effectively,
- 2) motivate employees to join the organisation,
- 3) motivate employees to come to work, and
- 4) motivate individuals by indicating their position in the organisation structure.

There are several principles for setting up an effective reward system in an organisation:

- Give value to the reward system. Employees must have a preference for the types of rewards being offered. Many employees prefer cash awards . Some employees like to see their name in the company newsletter. Others like the public recognition surrounding award ceremonies.
- Make the reward system simple to understand. Elaborate procedures for evaluating performance, filling out forms, and review by several levels of management lead to confusion. The system must be easy to understand if it is to be used effectively.
- Lay down performance standards within the control of the team.
- Make the reward system fair and effective.
- Ensure participation in the reward system.
- Involve people in the reward process and empower them to do the needful.

Most organisations use different types of rewards. Examples of recognition and rewards include money, plaques, trophies, certificates or citations, public recognition, official perquisites, special assignments, parties or celebrations or other meaningful considerations. The most common are wages or salary, incentive systems, benefits and perquisites, and awards.

For majority of people, the most important reward for work is the pay they receive. For one thing, an effectively planned and administered pay system can improve motivation and performance. Money may not actually motivate people. Surprisingly, there is no clear evidence that increased earnings will necessarily lead to higher performance. A great deal of research has been done on what determines whether an individual will be satisfied with the rewards he or she receives from a situation. The following five conclusions can be reached about what determines satisfaction with rewards:

- 1) Satisfaction with reward is a function of both how much is received and how much the individual feels should be received. When individuals receive less what they expect they are dissatisfied. When they receive more than what they expect they tend to feel guilty and uncomfortable.
- 2) People's feelings of satisfaction are influenced by comparisons with what happens to others. These comparisons are made both inside and outside the organisations they work in, and are usually made with similar people. Individuals tend to rate their inputs higher than others.
- 3) In addition to obvious extrinsic rewards individuals receive (e.g., pay, promotion, status symbols), they also may experience internal feelings that are rewarding to them. These include feelings of competence, achievement, personal growth, and self-esteem. The overall job satisfaction of most

people is determined both by how they feel about their intrinsic rewards and how they feel about their extrinsic rewards.

- 4) People differ widely in the rewards they desire and how much important the different rewards are to them. One group feels money is the most important, while another group feels interesting work and job content is. Both groups, of course, are able to find examples to support their point of view.
- 5) Many extrinsic rewards are important and satisfying only because they lead to other rewards, or because of their symbolic value.

An effective reward system should link reward to performance. Workers who work hard and produce more or give better quality results should receive greater rewards than poor performers. Also, criteria for receiving rewards should be clear and employees should know whether they are going to receive rewards for quality performance, innovation, effort or attendance. Management must ensure that workers perceive distribution of rewards as equitable. Furthermore, for organisations to attract, motivate and retain qualified and competent employees, they must offer rewards comparable to their competitors.

Types of Incentives And Rewards

A distinction may be drawn between incentives and rewards. Incentives are forward looking while rewards are retrospective. Financial incentives are designed to provide direct motivation – ‘do this and you will get that’. Financial rewards provide a tangible form of recognition and can therefore serve as indirect motivators, as long as people expect that further achievements will produce worthwhile rewards. Financial incentives aim to motivate people to achieve their objectives, improve their performance or enhance their competence or skills by focusing on specific targets and priorities. Financial rewards provide financial recognition to employees for their achievements in the shape of attaining or exceeding their performance targets or reaching certain levels of competence or skill. An achievement bonus or a team-based lump sum payment; are examples of financial rewards.

Competence-Related Pay

Competence-related pay may be defined as a method of rewarding people wholly or partly by reference to the level of competence they demonstrate in carrying out their roles. This definition has two important points:

- pay is related to competence, and
- people may be rewarded with reference to their level of competence. Competence related pay is not about the acquisition of competence. It is about the effective use of competence to generate added value. Competence-related pay works through the processes of competence analysis of individual competences and levels of competence.

Skill-Based Pay

Skill-based pay links pay to the level of skills used in the job and, sometimes, the acquisition and application of additional skills by the person carrying out the job. The term is sometimes used interchangeably with competence-related pay. But skill-based pay is usually concerned with the skills used by manual workers, including fitters, fabricators, and operators. In competence-related pay schemes, the behaviours and attributes an individual has to use to perform a role effectively are assessed in addition to pure skills. Skill-based pay may in many ways seem to be a good idea, but its potential costs as well as its benefits need to be evaluated rigorously before its introduction. Initially they may provide strong motivation for individuals to increase their skills. But they may outlive their usefulness and hence need to be revised or even replaced if they are no longer cost effective.

Team-Based Rewards

Team-based rewards are payments or other forms of non-financial rewards provided to members of a formally established team which are linked to the performance of that team. Team based rewards are shared amongst the members of teams in accordance with a scheme or *ad hoc* basis for exceptional achievements. Rewards for individuals may also be influenced by assessments of their contribution to team results. To develop and manage team rewards it is necessary to understand the nature of teams and how they function. Team-based rewards are not always easy to design or manage.

Profit Sharing

Profit sharing is better known, older and more widely practiced than gain sharing. Profit sharing is associated with participative management theories. Profit sharing is a group-based organisation plan. The fundamental objectives of profit sharing are:

- a) to encourage employees to identify themselves more closely with the company by developing a common concern for its progress;
- b) to stimulate a greater interest among employees in the affairs of the company as a whole; and
- c) to encourage better cooperation between management and employees. The logic behind profit sharing seems to be twofold.

First, it is seen as a way to encourage employees to think more like owners or at least be concerned with the success of the organisation as a whole. Individual oriented plans often place little emphasis on these broader goals. Second, it permits labour costs to vary with the organisation's ability to pay. Some companies have effectively used their profit sharing plans as vehicles for educating employees about the financial performance of the business. The most important advantage of profit sharing is that it makes

labour costs of an organisation variable and adjust them to the organisation's ability to pay. Most Japanese firms have used this approach to adjusting labour costs for decades.

Gain Sharing

Gain sharing is a formula based company or factory-wide bonus plan which provides for employers to share in the financial gain made as a result of its improved performance. The fundamental aim of gain sharing is to improve organisational performance by creating a motivated and committed workforce as part of a successful company. The traditional forms of gain sharing are the Scanlon Plan and Rucker Plan. The success of a gain sharing plan depends on creating a feeling of ownership that first applies to the plan and then extends to the operation. When implementing gain sharing a company must enlist the involvement of all employees so that it can increase their identity with, and their commitment to, the plan, and build a large core of enthusiastic supporters. There are three main principles on which gain sharing is based – ownership, involvement, and commitment.

The potential benefits of gain sharing are that it focuses the attention of all employees on the key issues affecting performance and enlists the support of all employees towards this. It also encourages teamwork and cooperation at all levels. Gain sharing differs from profit sharing in at least three ways. First, under gain sharing, rewards are based on a productivity measure rather than profits. The goal is to link pay to performance outcomes that employees can control. Second, gain sharing plans usually distribute any bonus payments with greater frequency (e.g., monthly or quarterly versus annually). Third, gain sharing plans distribute payment during the current payment rather than deferring them as profit sharing plans often do. Lawler (1971, 1990) has summarised some of the common results that have been found in research studies of gain sharing plans:

- Coordination, teamwork, and sharing of knowledge are enhanced at lower levels.
- Social needs are recognised via participation and reinforcing group behaviour.
- Attention is focussed on cost savings, not just quantity of production.
- Acceptance of change due to technology, market and new method is greater because higher efficiency leads to bonuses.
- Attitudinal change occurs among workers, and they demand more efficient management, better planning, and good performance from their co-workers.
- Employees try to reduce overtime – to work smarter.
- Employees produce ideas as well as effort.
- When unions are present, more flexible administration of union-management relations occur.
- When unions support the plan, they are strengthened because of better work situations and higher pay result.

There are, however, certain limitations of gain sharing plans. Perhaps the most important is differentially attracting and retaining the best performers. As gain sharing plans do not pay more for better performance, they do not necessarily motivate them to stay. Unlike profit sharing it pays bonus even when the organisation is not earning profits. Moreover, gain sharing plans do not fit in with every situation.

Stock Options

The stock option is the most popular long-term incentive. A stock option is the right to purchase a specific number of shares of company stock at a specific price during a period of time. The price at which the employee can buy the stock is equal to the market price at the time the stock option was granted. The employee's gain is equal to the market value of the stock at the time it is exercised, less the grant price. The assumption is that the price of the stock will go up, rather than go down or stay the same. Several trends have increased the attractiveness of stock options as a long-term executive incentive and retention tool.

Stock options are similar in many ways to profit sharing plans. The basis for payouts is organisational performance in the stock market. Important goals of the plan are:

- a) to motivate employees to act in the best interest of the organisation as a whole;
- b) to enhance employee identification with the organisation; and
- c) to have labour costs vary with the organisational performance.
- d) Stock options have long been a common programme for executives, but some organizations, like Pepsi-Cola and Hewlett-Packard, grant them to all employees. There is evidence that this approach is becoming more widespread.

Merit Pay

Merit pay is the most widely used approach for paying performance. Merit pay systems typically give salary increases to individuals based on their supervisor's appraisal of their performance. The purpose of merit pay is to improve motivation and to retain the best performers by establishing a clear performance reward relationship. Considerable evidence suggests that most organisations' performance appraisal is not done well and as a result, good measures of individual performance do not exist.

Employee Ownership

Employee ownership plans include stock option plans, stock purchase plans, and Employee Stock Ownership Plans (ESOPs). In small organisations in which participative management is practiced there is good chance of increasing organisational performance. In a large organisation with little employee ownership, it may positively affect the structure by creating integration across the total organisation if,

of course, all employees are included in the ownership plan. Ownership can have a more positive impact on attraction and retention than does profit sharing. The usefulness of employee ownership, however, is likely to be highly situational. For instance, in the case of small organisations they might make profit sharing and gain sharing unnecessary, and if combined with an appropriate approach to employee involvement, they can contribute substantially to employee motivation. In a large organisation they may contribute to the integration of the organisation and to a positive culture.

Employee Benefits

Employee benefits are elements of remuneration given in addition to the various forms of cash pay. They provide a quantifiable value for individual employees, which may be deferred or contingent like a pension scheme, insurance cover or sick pay, or may provide an immediate benefit like a company car. It also includes elements that are not strictly remuneration, such as annual holidays. Benefits in general do not exist in isolation. They are a part of comprehensive compensation package offered by the organisation. The objectives of employee benefits are:

- a) to increase the commitment of employees to the organisation;
- b) to demonstrate that the company cares for the needs of its employees;
- c) to meet the personal security and personal needs of the employees; and
- d) to ensure that benefits are cost-effective in terms of commitment, and improvement in recruitment and retention rates.

Benefits represent a large share of total compensation and, therefore, have a great potential to influence the employee, unit, and organisational outcome variables. The empirical literature indicates that benefits do indeed have effects on employee attitudes, retention, and perhaps job choice. Further, it appears that individual preferences may play a particularly important role in determining employee reactions to benefits. Consequently, many organisations have implemented benefit plans that permit some degree of employee's choice in the hope that a better match between preferences and benefits will be obtained, perhaps at a lower total cost to the employer.

Statutory and Voluntary Benefits

Employee benefits may be classified as statutory and voluntary. Statutory benefits are to be given to the employees by the organisation regardless of whether it wants to or not. For instance, sick pay, maternity package . The menu of voluntary benefits offered to employees by employers is quite astounding, and carry significant cost to the employer. The major voluntary benefits are: vacations, holidays, special leave, sick leave, health insurance, educational assistance, employee discounts, medical benefits, recreational facilities, subsidised meals in canteens, credit cards, and mobile telephones.

Flexible Benefits

There are significant individual differences in benefit preferences. Such individual differences, of course, lend greater weight to the need for offering employees a choice in the design of their benefits package. Flexible benefits plan will help control costs and enhance employee satisfaction. When an employer considers offering benefits to employees, one of the main considerations is to keep costs down. Traditionally, employers attempted to do that by providing a slate of benefits to their employees – irrespective of their need or use. Companies learn, in due course, that these benefits offered did little to motivate their employees, or to provide an incentive to be more productive. Employees viewed benefits as “given”. This fact coupled with the rising costs of benefits and a desire to allow employees to choose what they want led employers to search for flexible benefits.

The term flexible benefits refer to a system whereby employees are presented with a set of benefits and are asked to select, within monetary limits imposed, the benefits they desire. The aim of flexible benefits programmes is to confer specific advantages to both the employee and the employer. The employees have the freedom to choose benefits that are tailored to their specific needs. In some cases, it motivates employees and leads to increased morale. It helps the employer to decide the nature and quantum of benefits, and manage the costs more effectively. Also it helps in attracting and retaining quality employees in an organisation. However, the main disadvantage of flexible benefits is:

- a) wrong selection of benefits in some cases;
- b) keeping track with changing benefit needs of employees; and
- c) the administrative complexities involved in actual operation.

Trends in Employee Benefits

- Less attention to tax avoidance
- Greater simplification of benefit package
- More attention to individual needs
- Great emphasis on individual choice
- A move towards cash rather than benefits in kind
- Greater concentration on assessing the cost/effectiveness of total benefit package
- More attention to communicating the benefits package.

Reward Strategies

Reward strategy is primarily about aligning an organisation’s payment arrangements and wider reward systems with its business objectives. This means developing systems which enhance the chances that an organisation’s employees will seek actively to contribute to the achievement of its goals. So if improved

quality of service is the major business objective, this should be reflected in a payment system which rewards front-line staff who provide the best standards of service to customers.

First of all there needs to be a 'statement of intentions' setting out, in general terms, what the reward strategy of the organisation is seeking to achieve and which reward initiatives have been chosen in order to achieve these core objectives. Second, these ideas are expanded through a more detailed 'rationale' which explains the objectives in greater depth and shows how the various elements of the organisation's reward policy support the achievement of those objectives. In effect this amounts to a statement of the business case that underpins the strategy. To that end the rationale should include, a statement of the benefits that will accrue and an indication of the means that will be used to evaluate its success. The third element is an explanation of the guiding principles or values that have been used in developing the initiatives and that will be used to adapt them in the future.

The final component is an implementation plan; setting out exactly what initiatives are being brought forward and when, who has responsibility for their introduction and what their cost will be.

Employer Objectives

Reward strategies and the initiatives developed as part of those strategies should be judged according to their ability to meet certain core objectives.

Attracting Staff

The reward package on offer must be sufficiently attractive to ensure that it is able to secure the services of the staff it needs. The more attractive the package, the more applications will be received from potential employees and the more choice the organisation will have when filling its vacancies. Attractive packages thus allow the appointment of high-calibre people and often mean that organisations are able to fill vacancies more quickly than is the case with a reward offering which is either unattractive or poorly communicated. However, what is 'attractive' in total reward terms in one labour market will be less attractive in others because people vary in what they are looking for. There is thus a need to establish what the target market values most and to tailor the offering accordingly.

Retaining Staff

The costs associated with recruiting and developing people, as well as the growing significance of specialist organisational knowledge in creating value and maintaining competitive advantage, mean that retaining effective performers is a central aim of reward strategy in many organisations, particularly those competing in knowledge intensive industries where highly qualified people are in short supply. This requires a package which is attractive enough to prevent people from becoming dissatisfied and looking elsewhere for career development opportunities. It may also involve the development of policies

which reward seniority so as to provide an incentive for staff to stay when they might otherwise consider applying for alternative work.

Motivating Staff

Aside from helping to ensure that effective performers are recruited and retained, in more general terms it is necessary that the reward package they are given serves to motivate positively and does not demotivate. The question of the extent to which money ever can positively motivate has long been debated by occupational psychologists, many of whom accept that the power of monetary reward to motivate is very limited, at least over the longer term. What is not in doubt, however, is the very considerable power of poorly designed or implemented reward practices to demotivate, particularly when they are perceived by staff to be inequitable in some shape or form. Ultimately the aim must be to reward people in such a way as to create the conditions in which they are prepared to work hard to help achieve their employer's objectives and, if possible, to demonstrate discretionary effort. Employers who want their workforces to be positively engaged with their work, to participate in continuous improvement programmes and to work beyond contract when required must have in place a reward package which does not demotivate and which, as far as is possible, motivates positively. In this regard, the total reward concept referred to above has plenty to offer as it incorporates intrinsic motivators alongside extrinsic motivators.

Driving Change

Pay can be used specifically as one of a range of tools underpinning change management processes. The approach used is to tie higher base pay, bonuses or promotion to the development of new behaviours, attitudes or skills gained by employees. Pay works far more effectively than simple exhortation because it provides a material incentive to those whose natural inclination is to resist change. It also sends out a powerful message to employees indicating the seriousness of the employer's intentions as regards proposed or ongoing changes.

Corporate Reputation

Aside from the aim of developing and maintaining a reputation as a good employer in the labour market, organisations are increasingly concerned to establish a positive corporate reputation more generally. For some the notion of 'prestige' is something they aim for as part of a business strategy that seeks to produce high-quality, high-value added or innovative goods or services. For others the maintenance of an ethical reputation is important in order to attract and retain a strong customer base. Either way delivery is significantly linked in part to the organisation's reputation as an employer. Paying poorly or having in place policies which are perceived as operating unfairly serves to undermine any reputation gained for being either a prestigious organisation or one which acts ethically and in a socially responsible manner.

Affordability

The above objectives are all desirable for organisations and form the basis of their reward strategies. But in this field of HR activity there is a major restriction in the shape of affordability which serves to limit what can be done at any time. The extent to which a particular objective is affordable also varies over time and tends to be unpredictable as so much depends on the current financial performance of the organisation. If money were no object organisations would develop 'ideal' reward packages which paid above market rates to ensure that the best people were recruited and retained and which linked pay both to individual and collective achievement so as to maximise effort and performance.

Employee Objectives

You might think that employees have only one objective as far as reward is concerned, namely to maximise the amount that they earn. Indeed some theorists further argue that employees are primarily interested in maximising the amount they earn while also minimising the effort they put in to achieve these earnings.

Wage Structures

The Basic or Flat Rate

This is the amount of money paid for an hour's work. It is also sometimes called the 'hourly rate'. Time rates are predetermined rates per hour paid at the end of the week or month.

Payment by Results Systems

Payment by results systems are either of the following:

- 1. Straight Piecework:** this is the system whereby the employee is paid according to output. The method is either to agree a fixed amount of money for the production of each item, or to allow a period of time for making the item. In the latter scheme, sometimes called the 'time allowed' system, if the employee completes the work in less time than planned, he or she is still paid for the original time and thus is able to increase earnings by completing more of the pieces, the calculation of the bonus being based on the difference between the time allowed and the actual time expressed as a percentage of his or her wage.
- 2. Differential piecework:** this is similar to the 'time allowed' system of piecework, except that the amount of the bonus earned (which stems from the time saved) is shared between the company and the individual, the wage cost being adjusted with output, so that the company takes a proportion of the bonus as production increases. Schemes of this sort may be known under various names, such as

'premium bonus schemes'. The employee has a choice with piecework on the level of output he or she wishes to achieve.

3. Measured Day Work

The pay of the employee is fixed on the understanding that he or she will maintain a specified level of performance. This level of performance, known as the 'incentive level', is calculated in advance, and the employee is put under an obligation to try to achieve the level specified, as his or her pay does not vary in the short term. There are individual rates and bonus systems. In addition, there are bonus schemes that aim at providing a group incentive, to a work group or factory or unit-wide.

4. Small group incentive schemes

Typically, a bonus is given to group members when their output targets are achieved or exceeded. There are numerous schemes, which vary according to the timescale adopted for measuring output, the size of the group, and the intergroup competitiveness that they encourage. Payment of the bonus may be equal among the group's members, or proportionate to an individual's earnings or status.

Developing a Pay Structures

Once the job evaluation is complete, the data generated becomes the basis for the development of company's pay structure. Which means the pay rates are established that is compatible to the ranks, classifications or points arrived at through job evaluation. The way the organization structures its compensation packages is primarily a matter of organizational philosophy though the market trends play an important role. The company can choose several options available. It can be using a single rate structure in which all the employees perform the same work receive the same pay. Or the second method is tenure based, that is based on the time for which an individual has been associated with the organization. There can be a combination of seniority and tenure based plans also. At times, pay can be linked with performance or productivity. The job evaluation methods give us the inputs for developing an organizational over all pay structure. Besides that other sources of information can be utilized for above mentioned purposes:

- Conduct of Surveys
- Reports
- Pay Commissions reports
- Reports of the Wage Boards
- Reports of the employee and employer
- Trade Union Journals etc.

Choice of the Structures

- Types of the organization; size, complexity, culture and tradition.
- Formal organizational structures and internal relativities.
- Degree of knowledge workers.
- Degree of Formalities.
- Degree of growth of the company.

Standard Salary Structure

A standard base pay programme offers fixed salary ranges for each position type; for employees performing the standard duties of their jobs. Set up minimum and maximum levels within those pay ranges to account for variations in experience and skill levels. When setting the base pay structure, determine where your company falls within your own industry as well as competing industries that may also offer job opportunities for your employees. Set up your pay levels to be competitive, or else you risk losing employees. You can use the Internet to find industry standard salary levels for specific jobs in specific geographical areas.

Once your base pay structure is in place, most companies then set up a merit pay programme that will take the employee through the salary range for their position at a performance-driven speed. This comes into play when the employee's managers do **annual employee performance reviews**. The downside of this is that employees may begin to see it as a given that they will get a salary increase after each evaluation, and it ceases to be a motivation to perform better in their jobs. For this reason, more companies are moving toward more of a reward-based compensation style, also called **Incentive Compensation**.

Incentive Compensation

Incentive-based compensation is becoming much more common because of the increased emphasis on performance and competition for talent. This type of compensation structure significantly helps motivate employees to perform well. Hiring bonuses are also frequently used now, even for new college graduates. However, you might want to tie in a specific time period prior to the employee collecting this bonus—for example, one-half after six months and the remainder after one year of employment. Otherwise, you could run the risk of the employee departing after that first check, which would defeat your purpose. So does that mean incentive compensation is the way to go? May be so, if your business is in an industry where you really have to compete to get good employees. Setting up an incentive-based compensation programme requires the same research into your industry as the base pay programme. You'll still establish base pay levels, but it may be slightly lower and you will build into that base the annual or quarterly (or any other interval) bonuses, commissions, or other types of shared cash compensation.

Further Reading:

- ✓ *John Stredwick, (2013), An Introduction to Human Resource Management*
- ✓ *Nick Wilton, (2011), An Introduction to Human Resource Management*
- ✓ *Michael Armstrong, (2006), A Handbook of Human Resource Management Practice*