- **Team-based systems**

  This has a number of benefits in improving team performance through encouraging co-operation, flexible working and multi-skilling, and the development of increased autonomy (and, hence, reduced supervision). In addition, it may be a lever for organisational change, through an emphasis on team working.

  On the other hand, it diminishes the role of the individual, compelling conformity and stifling creativity, and possibly having a negative effect on expectancy theory.

- **Organisation-based systems**

  These types of bonus schemes are based on the performance of the organisation in meeting its objectives, as measured by a variety of indices such as profit, share price, etc. They may be applied to the whole workforce or to particular sections of it (and are often confined to senior management levels).

  The basis of such systems are that employees have a direct stake in the overall performance of the organisation. This is enhanced where the bonus is paid as a distribution of shares, rather than as monetary bonuses, thus tying the value of the award to the continuing success of the organisation (remembering that share values may go down as well as up). For the organisation, such schemes are attractive in that they are only paid out of profits, and do not represent a permanent, on-going cost.

(c) Non-pay rewards

The benefits of employment are not solely confined to pay, although this is likely to be the most important aspect to both employers and employees. Most organisations provide a package of benefits beyond pay to attract and retain staff, including both monetary and non-financial rewards.

Examples of such a non-pay rewards include:

Financial benefits	Non-financial benefits
Sickness pay	Leave entitlement
Superannuation scheme	Flexible working hours
Season ticket loan	Career breaks
Removal expenses	Additional maternity/paternity leave
Provision of a car	Crèche
Clothing allowances	Education facilities and study leave
Private medical insurance	Sports and social club facilities

In addition, certain organisations provide incentive schemes linked to non-monetary rewards, such as additional leave for long service.

Contemporary Developments in Reward Systems

Until comparatively recently, there have been only a few variations in how pay is administered:

- Flat rate for the job – here the gross (pre-tax) wage or salary is expressed in weekly, monthly or annual terms, with stated rates for overtime

- Piece rates – this is where the worker is paid for what is produced – no output, no money
- Flat rate plus commission or sales-related element

The recent past has seen a considerable move towards **performance-related reward**. Whilst most would accept that greater productivity should be rewarded accordingly, it is easier said than done to have an entirely fair system – for example:

- Those who sell products or services which are in high demand will achieve good results, irrespective of their skill or diligence, but a very able sales person may achieve bad results because the product or service is inherently poor.
- It is difficult to quantify the value of output of many workers, such as those in management support functions and service industries.
- The economics of the business may not support a fair reward system, e.g. nearly everyone agrees that doctors and nurses are worth more in financial terms than they are paid, but the system cannot reward them appropriately without breaking the national budget.
- With an increasingly global market, a fair pay structure in one part of the business may be completely out of line with that in the same company's overseas subsidiaries.

There are many ways of implementing performance-related reward systems. Ideally, they should have a scientific basis, so that there is some measurement of the value of the work in terms of economic contribution to the enterprise. This can be done through various techniques such as standard setting and appraisal systems (which we consider in detail in the next unit).

Some of the methods of implementing performance-related rewards are as follows:

- **Profit Centres**

  Here the system is based on the contribution of each part of the business to overall performance. This is quite easy in an organisation with dispersed outlets, such as retail shops and financial institutions. A balance sheet and profit and loss account can be produced for each unit and rewards apportioned to individuals accordingly.

  It is more difficult, and sometimes impossible, to implement a reward system on this basis where employees are in a management services or support role. This inevitably creates conflict in businesses where sales performance is rewarded directly on results achieved but where support staff are remunerated on a flat salary basis. A computer operative, for example, might reasonably argue that his indirect contribution is as valuable, if not more so, in terms of sales database management than the front line salesman.

- **Points Systems**

  Points systems tend to be more flexible. The employee is set targets of achievement which result in points being awarded on an incremental basis. These can be tied in to annual performance review and appraisal systems. Also, as the focus of the business changes, the points awarded may be changed to reflect different priorities.

- **Totally Results/Commission Driven**

  In some sectors it is common to reward people entirely on results attained. Examples include some life assurance companies and double-glazing salesmen. There may or may not be some flat salary, but this is often a very small element of the remuneration package.

This system rewards consistently high-performers well, but has many disadvantages:

(i) A downturn in the market for the product or service can create hardship and (in **Maslow's** parlance) anxiety about basic physiological and safety needs.

(ii) Again it is difficult to reward those in service and support functions fairly.

(iii) Turnover of personnel tends to be high due to the low level of long-term security afforded by the system.

- **Sub-contracting**

  Charles Handy highlights this feature of modern business in his "Shamrock organisation" model, which demonstrate show the core workforce is decreasing in importance as part-time workers and outside contractors become more important.

  Full-time employees are expensive in the long term and usually the highest cost resource. Conversely, when work is sub-contracted out, the business pays only for what it gets. Further, large businesses can often enjoy significant economies of scale when buying in by demanding substantial fee discounts for larger contracts. The more competitive the business of the external provider, the greater the leverage of the company buying in.

  The consequence of this is that businesses which can contract work out to external providers can reduce their full-time staff complement significantly, resulting in the now-common delayering and down-sizing seen in many businesses.

- **Non-financial Rewards**

  Some businesses which suffer cost pressures are able to remunerate in non-financial terms. The chairman of a health authority, Stephen Bragg, introduced a system whereby older, more expensive consultants would be expected to put less time in as they got older. They could then use this time as they wished, either to generate external fee income or take more leisure time.

  This model fits well with **Vroom's** expectancy model, through which we learn that if more money is the preferred outcome, the consultant will generate outside work, whereas if the consultant's preferred outcome is more time with the family, this will provide the motivating spur.

  In addition to rewarding through more time off, businesses can provide other non-financial incentives, such as payments-in-kind.

- **Equity/Profit Share**

  It is common practice in some organisations to reward employees through giving them equity in the business (free shares) or a stated share of the profits earned each year.

  Whichever method is used here, the consequence is that the worker obtains a direct reward from the overall earnings of the enterprise. Supporters of such systems stress the greater sense of "ownership" of the business, which should, theoretically at least, result in more money for better results and hence greater overall commitment to goals.

  Several privatised utilities have introduced these systems in the last 15 years.

- **Subjective Awards**

  Many of the more traditional businesses reward effort based on the subjective judgement of executives or managers. The person responsible for the individual or team decides what **he/she** thinks the person is worth in terms of additional remuneration each year.

Many such systems work remarkably well despite the inevitable criticisms which can be levelled. The main problem is that some managers are more naturally grudging or demanding than others. Remember the **Black and Mouton** managerial grid? A "country club" manager is going to be much more benevolent in such a system than the "task leader", resulting in unavoidable discrepancies between what is given and what is actually deserved.

These systems also depend on being able to decide the overall size of the financial payment to be set aside for reward. Once decided, it is almost certain that some managers will fight harder for their people than others.

Competition for knowledge and skills within individual sectors is a major determinant of remuneration. There are highly important issues here, especially for businesses where "intellectual property" is a critical determinant of competitive edge:

(a) Long v. Short-term Focus

Some organisations have moved away from addressing long-term education and training needs in favour of shorter-term competencies – otherwise, what is to stop a person on whom many thousands of pounds have been spent going off to a competitor?

(b) Golden Handcuffs

This term refers to elements of the employment package specifically designed to tie the individual to the organisation. A financial or non-financial disincentive is built into the employee's contract which is invoked if the person decides to leave.

(c) Ownership

Some businesses give the employee a stake in the product, either through equity participation or patent rights. One major bank, for example, permits an individual employee to retain patent rights over a smart card product so that both the individual and the organisation can benefit in the future.

This type of action can appeal to the person whom **Peter Drucker** refers to as the "intrapreneur" – the ideas person who invents the future. It is also fairer, of course, to give a person who will be responsible for generating millions of pounds of future income a direct stake in the product or service instead of expecting him to be satisfied with a flat salary. If a person comes up with a genuinely revolutionary concept, no performance-related reward system can provide adequate return – there has to be an additional and more direct incentive.

(d) Package Approach

The package approach shifts the focus away from salary alone and towards the entire remuneration package. This also creates the effect of not letting competitors know exactly what is offered.

The most common manifestation of this approach is seen in the appointments pages regularly when a package is offered on an "OTE" (on target earnings) basis, plus benefits "*commensurate with the position*".