

Reward Management as an aspect of Motivation and Human Resource Management: A Conceptual Review

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Abstract - The purpose of this paper is to critically analysis reward management as an important element of HRM and demonstrates the association between motivation theories and reward management. The online database and HRM books were researched to assess and explore the strengths and weaknesses as well as challenges that contradict reward management in practice with respect to HRM and motivational aspects. The literature indicated that even though the financial rewards are very important for workers and it influence their level of performance, there is a need to manage and balance compensations along with the non-financial rewards, in order to achieve employee's satisfaction and organizational goals. Furthermore, from literature it was found that countries' work culture differed, this influences in decision-making process associated with motivation and reward management.

Keywords – Reward Management, HRM, Employee.

I. INTRODUCTION

Human Resource Management is basically managing the employees in the organization, HR department sets rules and procedures to line managers who are responsible to implement, process and monitor it. The department handles many necessary functions of business: recruitment and selection, performance management, organizational development, safety, training, workforce planning, and reward management. HRM plays a strategic role in managing people in the workplace culture and environment. To engage the employees in the organization environment we need a reward strategy. The reward is defined as a recognition of work, service or achievement that someone does for others could be individual or entity (Armstrong, 2016). In businesses, reward refers to the organization commitment towards their employees in term of providing a suitable remuneration package (Wilkinson, 2016). Millmore, et al. (2007) defined that reward strategy is concerned with the policies and practices required to ensure that the value of people and their contribution to achieving organization goals are recognized and valued, the strategy should align with the overall business strategy. The importance of rewarding strategy is to get the maximum benefit to the organization by hiring skilled people to get profit maximization and efficient work performance.

This paper critically analysis reward management aspects of HRM and demonstrates the association between motivation theories and reward management. Various HRM books and online data based about reward management were reviewed to assess the strengths and weaknesses as

well as challenges that contradict reward management in practice with respect to HRM and motivational aspects. Based on which this paper argued that even though the financial rewards are very important for workers to influence their level of performance, there is a need to manage and balance compensations along with the non-financial rewards, in order to achieve employee's satisfaction and organization goals. This paper will show the effect of cultural differences in term of deciding which reward system (monetary or non-monetary) is suitable for them, with specific references to Korea, Japan and Oman.

II. TYPES OF REWARDS

There are two components of reward: financial and non-financial incentives. Financial rewards consist of direct and indirect incentives, it is a tangible financial incentive the company provides to its employees when their contribution and progression at work meets or exceeds expectations. There are two types of financial incentives fixed such as basic salary and variable rewards which are split to short terms such as bonuses, special increment and long term such as profit sharing, stock option.... etc. In the other hand, indirect financial rewards represent the benefits and services the company provides to its employees like housing allowance, medical insurance...etc. On the contrary, non -financial rewards are a concern with engaging the employee and recognize his achievements e.g. praise from his line manager (Wilkinson, 2016).

2.1 Total reward

In order to remain a competitive organization and attract and retain the best employees, organizations need to develop a comprehensive reward practice that meets their employee different needs and lead to their satisfaction. This is called a total reward package which consists of monetary and non-monetary rewards that aligned with the organizational strategic goals and increase employee's motivation level as they represent a valuable asset to the company.



Figure 1 total rewards

Source: <https://www.k-state.edu/hcs/benefits/total-rewards/>.

Paul Thompson (2002) statues eight characteristics of a total reward strategy as cited by Brown and Armstrong (2019) are as follows:

- **Holistic** – concentrate on how organizations attract, retain and motivate employees to contribute to success using a range of monetary and non-monetary rewards.
- **Best fit** – tailored to the organization's culture and work processes.
- **Integrative** – the reward system is integrated with HR policies and practices.
- **Strategic** – aligns reward and business strategies.
- **People-centered** – focuses on employee needs and wants.
- **Customized** – provides a flexible mix of reward that offers choice.
- **Distinctive** – uses rewards to create a distinctive employer brand.
- **Evolutionary** – long-term, incremental approach.

Every organization has to has a reward system to adapt and administer rewards. Reward systems have two types: a performance-based system which concerns with rewarding individuals or rewarding the team group, whereas, the second type is a non-performance system which concern with employee skills, seniority, and competency. Human resource department is responsible to implement the best system that fits the organization business strategy.

III. THEORETICAL APPROACH TO REWARD MANAGEMENT

There are several theories of motivation are developed to explain the concept of motivation, is categorized into two theories: content and process theory. The content theory is a concern with individuals needs and wants whereas process theory explains the process of motivation and what drive to motivation. The following are an explanation of Maslow content theory of motivation and Adams Equity process theory.

3.1 Maslow Motivation theory

Maslow (1943) hierarchy of needs is a behavioral motivational theory which argues that individuals have certain needs that have to be fulfilled in sequence order, starting from basic needs such as food, water and rest followed by safety, esteem, belongingness and to the top needs which is self-actualization. Maslow asserts that an individual cannot move to the next level until he completes or meets the current need or level. However, what drives humans to move from level to another is the need to achieve something then move to fulfill another need (Hutchison and King, 2014).

According to Maslow employees will first seek to secure the first two levels of the hierarchy: secure a good salary to meet his family needs and work in safe work-environment and work stability. After fulfilling these basic needs, the employees will move to social needs which is the middle level of the hierarchy, the employee needs friendship at work and feels that he belong to the organization or department. Afterward, they look into higher level needs which represent esteem which means respect an individual ability and capacity in term of providing appreciation and reward, and self-actualization which basically reaches to the ultimate potential. A need for appreciation and recognition appears as a desire. For example, get appreciation in written or verbally after accomplishing a certain task (Fallatah and Syed, 2018).

The beauty of the Maslow theory is that individuals always need to be motivated to go further in their life and achieve their goals. Where a financial reward might impact on their social life strongly, but its effect will not remain for a long time, the employee needs another aspect to be rewarded to fire-up his motivation again and again. Managers could use some solutions such as shift employees to another challenge, involve them in committees or team projects.

However, sometimes the department structure does not allow to promote the employee to a higher position. So, the solution is to upgrade the organization structure to promote the person. For instance, in government Royal decree upgrade directorate of the Ministry of Education in Al Wusta region to general directorate (Ministry of Legal Affairs, 2018). Similarly, happens in private organizations like AhliBank, where all employees of internal control

department are in C grade it means assistant manager level, the reason is to give importance for their critical work as well as reward the employees psychologically that they are doing an important job task.

3.2 Adams Motivation theory

Adams (1965) discussed equity theory of motivation argues that the employee compare his inputs which is what is he providing to the organization like loyalty, skills, hard work and education and his outputs which is what he is getting from the organization such as salary, bonus and promotion with other employee at same level job, if the employee does not feel the sense of equality he will try to decrease or increase inputs or outputs to reach to equality and feel satisfied that he balanced between the job duty and what is he being paid or just leave the organization at the end. So we can say that the employee is motivated when he reaches to an equilibrium between what he provides and what he received from his organization and he get demotivated when there is a breach between the incomes and outcomes. Critically, it is a comparison between employee ratio and others where people are concerned more to their surrounding environment and want to be treated the same accordingly.

As a result of feeling underpaid, the organization needs to implement another reward method to balance the equality equilibrium of the employee and this will be done by feeling appreciated and this will case to satisfaction and better work performance. Chapman (2009) criticized Adams theory of motivation where he argued that

- 1- The company has a certain structure so they cannot treat all employees equally
- 2- If the management treats all employees equally there will no longer be a distinction employee, all will get the same benefits. So will affect the work performance.

In my opinion, equality is a challenge in any organization due to turnovers. Definitely, any new experienced member joins the organization accepting the attractive offer and/or package. Sometimes, the wages of the new employee will be better and/or higher than the wages of exiting one. Such situations are very sensitive because the pay is the basic requirement for any person who works for the employer. This will create a difference between the old and new staff. However, to reduce this gap we suggest considering a seniority-based system to promote loyal employees.

3.3 McClelland's Needs Theory

McClelland's Needs Theory was built on Maslow needs theory, it claims that depending on their dominant motivator Individuals will have different characteristics, these are influenced by three motivators: ether achievement, affiliation, and power. (Chavez, 2016).



Source: <https://businessjargons.com/mcclellands-needs-theory.html>

A) Need for Achievement

Individuals with a high need for achievement are seeking a moderate level of risk, they avoid high and low-risk situations. They consider low-risk achievement as they easily gained and have no value. While high-risk projects seem to be a chance rather than their own efforts. McClelland said that the theory of the need to achieve claims that "individuals who have a strong need to achieve commonly find their way to entrepreneurship and their success rate is higher than that of other entrepreneurs" (Chavez, 2016).

B) Need for Affiliation

The person with high affiliation needs want to be accepted in his community, he/she needs to build a relationship with others. Hence, they prefer a job or tasks with more interaction like customer service (Royle and Hall, 2012)

C) Need for Power

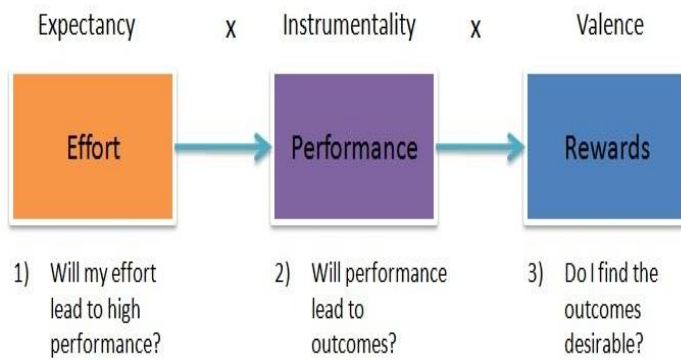
There are two types of need for power: personal and institutional. People who need personal power usually want to direct others and people who need institutional power are likely to want to organize the efforts of others to further the goals of the organization (Royle and Hall, 2012).

3.4 Expectancy Theory

According to Lunenburg (2011), the concept of expectancy theory was originally introduced by Vroom (1964) is based on four assumptions that stand for the probability of an individual's effort will lead to an outcome

- 1- Individuals join the organization with expectation on their needs and past experience.
- 2- Conscious is the cause of individuals behavior
- 3- Individuals expect many things from their organization e.g. salary, job challenges, friendly environment, and job security.
- 4- Achieve personal goals

Based on the assumptions Lunenburg (2011) explained three relationships occurred as below figure illustrates:



Source:

<https://wikispaces.psu.edu/display/PSYCH484/4.+Expectancy+Theory>

- Expectancy: - it could be described as the person estimation of doing a good job or effort will result in better performance.
- Instrumentality: - the individual thought that the well-done performance will be rewarded with a valuable outcome indeed.
- Valence: - Represent the value level of the reward or outcome to the individual.

Every organization has to have a reward system to adapt and administer rewards. Reward systems have two types: a performance-based system which concerns with rewarding individuals or rewarding the team group, whereas, the second type is a non-performance system which concerns with employee skills, seniority, and competency. Human resource department is responsible to implement the best system that fits the organization business strategy. The next paragraph will define each system with a real case implication along with a criticism of each system.

IV. REWARD MANAGEMENT IN PRACTICE

4.1 Performance-based system

The most frequently used performance-based incentive systems are illustrated by Flora and Thomas (2012):

- i. Piece rate system: - Employees are being paid for their individual output at the end of the working day. For example, a cloth manufacturing pays its employees based on the total number of cloths produced, this system helps to increase individual performance. However, this system is work only with the observable and quantifiable outputs produced by the employee.
- ii. Bonus: - A onetime sum lump bonus the employee awarded to achieving a certain target or task and it is given one time and does not add on the permanent monthly salary.
- iii. Merit Pay: - A permanent increase in the monthly salary based on the employee performance of last year.

- iv. Sales Commission: - A commission paid to salespersons as a reward for their effort of achieving a certain volume of sales. For example, car sellers are getting a commission on every car they sold.
- v. Profit sharing: - The company shares part of its profit with the employees, this will effect powerfully on their loyalty and commitment towards the organization. Although not all employees have a direct effect on company profitability, the organization rewards all of them.
- vi. Stock option: - Giving the employees the right to buy company shares with the preferred price then sell it in the stock market and gain profit. In last years this reward system get less preferable for companies because of many reasons one of them that it does not attract the employees when the stock market goes down as well as changing of accounting rules in 2005 where the companies have to report the preferred stocks as an expense, so it becomes expensive to offer it to the employees.

The discussion has been made by Lee and Kim (2006) that the best example of a performance-based system is Korean human resource system which changed after the financial crisis in the late 1990s. The changes direction was leaving the seniority-based system towards a performance-based system where the reward is for individuals or groups depending on their performance. Korea concentrates on four major HR practices to transform from traditional to Yeon-bong (Korean-style merit pay)

i. Recruiting and selection

Firms change their strategy from recruiting graduates to recruit on demand, according to business environment changes organizations head towards specialist workers rather than a generalist. This result in changing the workplace which was happening rarely previously (Lee and Kim, 2006).

ii. Training and development

The emphasize of providing training programs is more towards specialist employees rather than training generalist, the reason is to align with corporate strategy. This led to increasing employee's employability and improves their capability and firm performance (Lee and Kim, 2006).

iii. Evaluation and rewards

Korea transforms from a seniority-based system to Merit performance-based system. In 2005 48.4% has adopted this change, it found that the new strategy related to the increase of labor productivity. According to the above statistic it is expected that Korean firms get attracted to this system in the future. However, evaluation of employee performance also changed from

seniority-based compensation to Management-By-Objectives which evaluate employee development and compensation decisions. In addition, job grades have re-structured where the gap between top level and low level has been reduced in the organization's hierarchy. The outcome for this step was decreasing work bureaucracy and delegating authority to lower grades instead of emphasizing it in higher level only (Lee and Kim, 2006).

iv. Employment flexibility and outplacement

The organizations abandon the past lifetime system by presenting a retirement plan called honorary retirement plan. Moreover, the goal of this approach is to reduce cost and adopted flexibility employment system (Lee and Kim, 2006).

v. The best practice in Korean experience is composed of a traditional and performance-based system. It is expected that HRM will contain various aspects of both system characteristics due to the unique Korean organizational culture (Lee and Kim, 2006).

4.2 Non-performance based system

In Japan most of the companies use a seniority system with their employees, they encourage the employees to remain in the same institution for a long-time service period by rewarding them. This wage system has been applied since the 1950s. In other words, Japanese organizations reward loyalty and their pay system based on age seniority, it means that they pay a higher salary for old employees and low salaries to fresh graduates (Mariko, 2016). The remuneration package consists of the basic wage, various allowance, and semiannual bonus. Robert Evans (1984) asserts that the basic wage depends on two factors: education age and job skills. The annual raise divided into two parts: recognize years of service where every additional year is counted including to employee developed abilities and merit of work. The second part associated with a general increase in base wage. An explanation has made for why the increase in salary is related to age in Japan companies and it illustrated by Robert Evans (1984)

- 1- Well define employees' abilities and match their skills to the job
- 2- Employee learn to enhance their productivity skills
- 3- Motivate employees in lifetime employment security.
- 4- Guaranty to do acceptable work from juniors.

The prime minister Shinzo Abe has proposed a review on the seniority-based wage system and shift to merit wage-based system when he meets with representatives of large Japanese organizations and labor committees. The main purpose of shifting the payment strategy is to provide higher salaries to the younger generation and cope with the labor market conditions and business changes around the

world. Large Japanese companies moved to the new system such as Toyota, Honda, Panasonic, and Sony. As a result of the removal of the old system, employees will have an increase of work incentives and there will be a huge movement of workers across business sectors (Kana, 2015).

The new system approach was criticized by CyberAgent in charge of HR Soyama "If you analyze Japanese companies which have done well globally, their strength has been the team spirit of the employees. So, we have concluded that long-term employment works better for us." Said (Mariko, 2016).

V. IMPLICATIONS OF REWARD MANAGEMENT

From the above discussions, it can be believed that there is no one system could be considered as the best practice for all countries. Every country has its unique character, a culture so the best practice could create after adjusting the system according to their work culture requirements. An example in the UK "Almost as many employers claim they operate performance-related reward schemes (48%) as those saying they do not (52%)" (CIPD, 2017).

Armstrong (2014) argued that extrinsic motivation may have an immediate effect on the employee, but it not necessarily impacts in long-term. Whereas, Intrinsic motivation have a deeper and longer impact in long-term because it inherent in the individuals and the work and are not an outsider motivator. Based on the above argument it can be suggested to consider implementing a total reward approach which is a combination of financial and non-financial rewards. The reason for adopting the total reward strategy is to illustrate that money is not the main concern to individuals, there are other needs to be fulfilled e.g. learning and development. As it looks like the magic solution but it's not, the organization should try a range of intrinsic and extrinsic rewards to achieve business strategy. In addition, the rewards should be used strategically which means rewards must be customized according to the individual needs (Stephen, 2010). However, there are internal and external factors effect on which type of reward is suitable for the employees. The following are examples of each factor:

5.1 External Effect

According to Flora and Thomas (2012), A cross-culture research suggests that financial rewards could be demonstrated more in collectivistic society whereas non-financial incentives effective in a feminine society where work-life balance is highly appreciated. The general factors affect the pay levels as stated by Brown and Armstrong (2019) depends on various factors like the nature of the external and internal labor market. The classical economic theories like the supply and demand of labor, the human capital theory, the efficiency wage theory, and agency

theory discussed and explained how other factors affect the decision on pay and the bargaining power of the employees.

5.2 Internal Effect

Another aspect effect rewards type is segregate rewards based on job titles, it can be believed that reward segmentation should be applied in some organizations based on its business activities. According to Armstrong (2014) "Reward segmentation refers to categorized rewards for certain jobs level such as senior executives or nature", for example, customer service, call center agents and salespersons who are in the front line in the organization to face customers. An example of the workplace with call center agents receives monthly shift allowance because the center is operating on 24/7 a week and receive also fix monthly allowance of headphone.

VI. PAY STRATEGIES

There are several methods of pay strategies, according to internal and external factors organizations decides which practice is suitable for them. The three strategies are classified by Stephen (2010):

- 1- Graded pay based on job evaluation: A structure of sequence grades that contain comparable jobs in size are placed in two types narrow grade structure and broad grade structure.
- 2- Market-related pay: Identifying the rates of pay in the labor market and compare it with internal pay structure at the same jobs level within the organization.
- 3- Performance related pay: Its pay related to individual performance.

CIPD (2017) research report on 2015 notice that the factor which determinate pay was the ability to pay but after two years the focus of setting salaries has shifted to market rates. In total 70% of respondents believes that whether or not underpinned by job evaluation, paying the market rates is the most relevant consideration.

In Sultanate of Oman, the pay determination is focused on market rates too, the government does not want to interfere to set a specific structure although changed the minimum wages several times in the past years. However, a top official of the Ministry of Manpower said "The private sector is an open market and imposing a defined salary structure might interfere in the business of companies," said Said Salem Al Saadi, advisor to the Minister of Manpower (Times of Oman, 2016). The minimum wages were nearly 120 R.O before 2011 and in 2013 it has announced a raise to 325 R.O and just recently in 2017 the government represented by the Manpower ministry increased the minimum wage to 450 R.O monthly which is equal to 7,000 US dollars yearly, compared to the national minimum wage

Oman ranked in the top 14% percent as a higher minimum wage country provider (CIPD, 2017).

The reduction of oil prices and economic downturn is the main factor that impacts on getting high salaries and many sectors (government and private) do not much on emphasis on rewarding more financial promotions and encouraging rewards packages. However, the government currently concentrates on creating 25,000 jobs for unemployment graduates. Times of Oman (2017) declared that "Ministry of Cabinet decides to provide 25,000 jobs for nationals in public and private sectors and also encourage organizations to interact with the Omanisation program". The reason for working on improving private sector remuneration package such as amendment in minimum salary and provide medical insurance was to attract individuals to the sector.

VII. CONCLUSIONS

In conclusion, the paper examines the topic of reward management and illustrate types of reward along with theoretical, challenges and practical implications. However, the need for financial incentives is equal to the needs of non-financial incentives in every society. Human Resource Management plays a significant role of adapting the best practice which fulfills both the desire of individuals and organization. Selecting the best reward system that provides the best outcome in the long term for the entity as well as for their employees, the reason is to increase their competitiveness and productivity. However, consider applying different pay strategies in order to maintain the employees with the organization for the longest period and doing this will lead to work stability.

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