Reward Strategy: Time for a More Realistic Reconceptualization and Reinterpretation?

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This article focuses on organizations' continued struggles to design and implement successful and credible reward strategies. We argue that a major and neglected factor that accounts for this is how reward strategies are designed and executed with insufficient attention given to employee preferences for different types of reward. We argue that this is both a problem of process in the way reward systems are designed and a problem of how models of reward strategy are built. Developing more effective reward strategies requires a better understanding of holistic rewards and greater attention to line management roles in their implementation. © 2010 Wiley Periodicals, Inc.

Introduction: The Struggle With Strategy—What Forms Does It Take?

North American–inspired concepts of pay and reward strategy have become influential in some parts of Europe (in particular, the United Kingdom) and regarded increasingly as normative "best practice." This article is a general review of organizations' continued struggles to design and implement successful and credible reward strategies. We argue that a major and neglected factor that accounts for this is how reward strategies are designed and executed with insufficient attention given to employee preferences for different types of reward. We argue that this is both a problem of process in the way reward systems are designed and a problem of how models of reward strategy are built. We reject, however, the notion of being able to make systematic comparisons between single models of "European" versus

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Published online in Wiley InterScience (www.interscience.wiley.com).
© 2010 Wiley Periodicals, Inc. • DOI: 10.1002/tie.20328

U.S. human resource management (HRM). In part, this is due to the diversity of practice across European nations but also due to limited evidence on individual reward management strategies and practices in many European countries, beyond analysis of collective bargaining strategies. In itself, this illustrates one of the major differences in national and legislative contexts that shape reward practices in the United States and many European nations. We therefore draw selectively on findings from empirical research addressing the topics in this article in a variety of countries, acknowledging a degree of bias in reliance on U.K. literature, where U.S. approaches to reward have gained a rather greater foothold to date than other European countries.

We first explore the evidence that documents organizations' difficulties with making and implementing reward strategies and their dissatisfaction with the outcomes. Second, we turn our attention to reasons why this situation has arisen. We review how reward-strategy formulation is commonly conceived and outline deficiencies in some of the popular approaches. Third, we address what theories of human behavior from economics and psychology that dominate in the reward field can contribute to our argument. Lastly, we argue that existing research suggests that paying closer attention to employee reward preferences and line managers' capabilities may lead us toward using concepts of total and particularly nonfinancial, rather than financial, rewards and consider the implications for how other forms of reward can be delivered. This would enable adoption of a more realistic, emergent, and employee-focused model of reward strategy.

Difficulties With Reward Strategy and Dissatisfaction With Outcomes

Ambitious performance-oriented, pay-focused, and business-aligned reward strategies derived from North American concepts and thinking have dominated the normative literature and supposed "leading-edge" reward policies in multinational organizations for the last 20 years. They are also subject to increasing attention in parts of Europe, including new member states (Broughton, 2009). Much attention has been devoted to U.S. writers such as Lawler (1990), Zingheim and Schuster (2000), and Ulrich (1997), as well as U.S.-parented consultancies and American business and reward journals. Vernon (2006) argues that pay is one of the easier HR practices to incorporate in a multinational strategy, backed up by evidence showing that 85% of multinationals state they operate a global pay strategy (Mercer HR Consulting, 2005). Yet the outcomes of the approach have been often been less than impressive, and a counter-reaction appears to be emerging. We begin by reviewing the evidence on the inputs to and outputs of the reward-strategy process, in order to identify the key problems U.K. organizations have faced in creating and implementing their reward strategies. First, we consider organizational plans and intentions to develop reward strategies and then what the consequences and outcomes are of their attempted implementation.

Developing a reward strategy at all is a challenge for many organizations. Given the centrality of reward to the employment contract, one would expect widespread attention being given to formulating and implementing appropriate strategies. However according to the U.K. Chartered Institute for Personnel and Development's (CIPD's) recent annual reward management survey of nearly 500 organizations (2007, p. 3), only 35% have a written reward strategy. Moreover, 91% of managers surveyed believed that implementing a reward strategy was difficult or extremely difficult (CIPD, 2007, p. 3). Reported problems center on external environmental and regulatory changes, coupled with perceived resistance from line managers. This is consistent with research that shows slippage between the adoption and implementation of reward strategies. Poole and Jenkins (1998) found repeated evidence of gaps between espoused pay strategies and actual pay policies in a large survey of managers. D. Brown and Perkins (2007), for example, compare the influence of a business-driven set of factors on reward practices, such as the desire to increase returns to shareholders and customer service levels, with external and uncontrollable factors such as wage inflation and trade union activity, amongst more than 50 multinational organizations. A largely reactive, externally influenced, response-driven approach was more strongly influential in explaining reward practices in more of these companies than the long-term, business goal–directed, strategic approach. Notably, at this point in the design process, concerns about meeting employee priorities do not feature, which we suggest is indicative of management's ignorance of problems that will occur later.

Bloom, Milkovich, and Mitra (2003) found a similar pattern in the reality of North American reward practice, a pattern they describe as "pragmatic experimentalism" in rewards. The traditional idealized reward-strategy model assumes business goal–driven and directed, uniform rational organizations, with a theoretical choice between globally integrated reward strategies or locally divergent practices. In reality, like any other strategy-enactment process, reward management is dynamic, flexible, and emergent in the complex and socially constructed world of large multinationals. Milsome guards against simplistic

adoption of fads and trends, arguing that "when implementing new reward practices, organizations often disregard facts, act on ideology and casual benchmarking" (2006, p. 1355). Strategy is supposed to be about choice and competitive differentiation, which is undermined when reward practices are simply benchmarked and copied unthinkingly.

Admittedly, there is some statistical evidence of positive associations between some forms of pay system and organizational productivity and performance. In particular, group-based pay systems such as profit-sharing and employee share ownership plans seem to fare well in evaluations (S. Brown, Fakhfakh, & Sessions, 1999; Doucouliagos, 1995; Kraft & Ugarković 2005; Kruse, 1993; Weitzman & Kruse, 1990; Wilson & Peel, 1991). But managers continue to express widespread dissatisfaction with the effectiveness of pay systems and their outcomes, and in general, there is limited research evidence to support the relative success or failure of particular reward-strategy approaches and their constituent policies.

Suff and Reilly (2004) provide a detailed review of the perils and pitfalls of variable pay systems and Suff, Reilly, and Cox (2008) review in detail the many problems found in implementing individual performance-related-pay (IPRP). Even in financial service companies, which possess some of the characteristics most likely to support IPRP, Lewis (1998) found significant negative effects of pay systems on employee motivation and performance. Cox (2005) carried out a comparative case-study analysis of three types of variable pay system. The managers involved reported that the pay systems did not have as much impact as they had hoped and, in many cases, had created damaging side effects—for example, on teamworking. Towers Perrin's survey (2000) of nearly 500 companies in Europe reported only moderate satisfaction from managers with the effectiveness of pay systems in motivating employees and found low levels of satisfaction with the reinforcement provided to organizational values. One factor behind this is undoubtedly the difficulty of measuring pay-system impact, which Corby, White, and Stanworth (2005) point out stumped many managers and deterred them from even attempting the process. In some cases, this is likely to be because their effects may be heavily diluted and difficult to map, as in the case of group-based pay systems, where the connections between type of reward and employee attitudes and behavior are indirect (Wilkinson, Marchington, Goodman, & Ackers, 1994) and may be slow to take effect.

Even ardent supporters of the power of compensation to improve employee behavior use rather temperate language when they scrutinize the evidence systematically. Werner and Ward (2004) conclude from a literature review of a large number of articles in mostly U.S. journals that: "The research on motivation shows that individual incentives are positively related to work motivation, but the strength of the relationship is overestimated and it may reduce intrinsic motivation in certain specific situations" (p. 213). Burgess and Metcalfe's (1999) meta-analysis of research on incentives from all over the world leads them to conclude that "employees do respond to cash incentives" but "often in sophisticated ways that may or may not benefit the organization" (p. 4). In the United Kingdom, Brown and Nolan more damningly put it, "research literature on the consequences of cash incentives is generally . . . repetitive and disillusioning" (1988, p. 351).

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There are numerous reasons that have been put forward to explain managerial disappointment with pay-system outcomes. Large volumes of research evidence have been produced that have scrutinized failures in technical elements of scheme selection and design, and there is a plethora of models for managers to follow to try to align the strategy-reward-performance connection. Far less attention is given to the possibility that managers may often use pay in the hope of achieving behavioral change in employees when it would be possible and perhaps preferable to use alternative and additional techniques to reward and incentivize them.

Gerhart and Rynes (2003) confront the problem that the focus on pay may be counterproductive. They point out that some research suggests that individuals who place a higher relative value on pay may have characteristics that make them undesirable for many roles. For example,

they may be more risk seeking and have a tendency to low organizational commitment. Blinder's (1990) advice for the general employee population is that "changing the way employees are treated may have more impact than changing the way they are paid" (p. 7), but this appears to have fallen on deaf ears. So if it is likely that managers are spending too much time trying to incentivize employees with financial rewards and agonizing over the design of bonus schemes whose effectiveness may be limited, why is this? We suggest that there are three answers, which we examine in turn.

First is an obsession in connecting reward strategy to business strategy, which has been the Holy Grail of reward since the early 1990s. Second, research that might point us in a different direction away from financial reward to influence employees is systematically ignored due to the dominance of particular disciplines within management and business. Third, identifying, prioritizing, and implementing alternative methods of influencing behavior to financial reward are even harder for managers than wrestling with the minutiae of pay-system modeling, and they often appear to lack the skills to create a totally rewarding context that can help to engage their staff and encourage high performance.

Are Employee Views Neglected in Formulating Reward Strategies?

In assessing how much employee priorities inform reward systems, this discussion recognizes that very different approaches are taken across Europe. Countries in mainland Europe with a strong tradition of collectively negotiated reward settlements (in some cases required by law) offer opportunities for employees to influence indirectly both pay levels and the design of pay systems (Broughton, 2009). But while collective mechanisms may serve as a counterbalance to unfettered management prerogatives and be an accepted and respected method of reward determination in some countries, it is not clear that they accommodate the reward preferences of individual employees. This is important because of lessons from organizational psychology about the need to meet individual preferences in designing reward systems discussed later in this article. However, we have to note that employee expectations for involvement in reward systems are likely to be influenced by national cultures. Employees in countries with more collective orientations to decision making may not expect or want direct involvement, but they may expect managers to make decisions that will meet their needs. In countries without strong collective bargaining, employee involvement in reward-system design is often missing, with fewer than 10% of employees contributing according to one U.K. survey (CIPD, 2006). Not surprisingly, the CIPD found that 30% of organizations subsequently reported staff attitudes as a barrier to the successful operation of the reward strategy (CIPD, 2006).

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Even where employees are offered voice in relation to reward, it tends to consist of two narrow types. First is the consideration of employee preferences, which refers to their choices within a heavily circumscribed system, exclusively consisting of material and mostly financial rewards. Even research exploring cultural variations in attitudes to reward also seems remarkably fixated on comparing perspectives on pay systems in different countries (Mamman, Sulaiman, & Fadel, 1996). This work asks about "within-system" preferences that offer the opportunity to influence design of scheme, but not the choice of scheme itself.

There is nevertheless a long history of research that shows that even this limited consultation on reward-system design and implementation makes a major difference (see, for example, Bowey, Thorpe, & Hellier, 1986, and Cox, 2000 for further discussion). Interestingly, exceptional instances where employees have had real choice, such as Kim's (1996) comparison of gainsharing schemes where employees voted on the introduction with ones that were implemented unilaterally, showed the higher sustainability and success of schemes where employees had influence. However, it is currently difficult to create a convincing case that greater employee consultation about types of reward would make systems more effective, since managers currently afford limited amounts of voice to

 DOI: 10.1002/tie

employees, which in turn restricts the parameters within which analyses of reward preferences can be made.

Developing Reward Systems—What Theories Do Managers Use?

A primary cause of the neglect of employee preferences for different types of reward is the way in which reward-strategy models are constructed. The rest of this article reviews two approaches (the classic contingency models and the total reward approach), explains why the former predominates, and details the implications. Figure 1 shows one version of a total reward matrix.

Just how far do employee preferences and orientations expressed in the total reward approach figure in the development of reward strategies that are designed to support business strategies? An examination of the input "boxes" on most contingency models of reward strategy reveals a list of the usual suspects, in terms of factors that managers should consider. Business-strategy considerations, as in Lawler's (1990) original conceptualization of the business strategy driving reward strategy and practice, which then determines employee behavior and performance, invariably predominate. Factors typically include the nature of the product market, technology, market position, age and size of business, sector, organizational structure, work organization, and sometimes organizational culture. The closest they typically come to incorporating analysis of employee views is vague references to the "labor market."

This also usually translates into the assumption that reward packages should not deviate too far from what competitors are offering. This is in line with what Boxall and Purcell (2003) call the "table stakes" view of HRM strategy, that for some components it is essential to conform to sectoral norms. An investment bank will not recruit and retain employees if it offers the reward package of a high street retailer. But it does not go any way toward identifying whether those packages contain rewards that are most valuable to employees or will have most impact on their behavior. Lewis, Saunders, and Thornhill (2004) argue that Lawler (1995) acknowledges through the importance attached to matching reward to organizational values that employee values are, by implication, included. However, this seems a rather questionable assumption. Werner and Ward (2004) are more skeptical and note the paucity of research investigating how organizational culture influences the development of reward systems.

The current attention devoted to total rewards approaches and using rewards to influence employee engagement might indicate that this emphasis is changing and that more attention is being paid to employee views, needs, and wants. Even in common models to develop a total reward strategy (O'Neill, 1995, p. 110), employee views and preferences do not generally appear at all within the "workforce demographics" category. Discussions of total rewards in companies often seem to focus very narrowly on flexible benefits arrangements, which, again, are often implemented in a provider-led, relatively generic and packaged way, offering employees relatively narrow choices as to the makeup of their rewards.

The now-burgeoning research literature on employee engagement and total rewards reinforces the need to consider employee perceptions, as well as all aspects of their work environment that impact on those perceptions and make it more likely that they will display

FIGURE 1 Total reward dimensions (adapted from CIPD, 2007)

Extrinsic	Pay (cash and bonuses)	Benefits (insurance, holidays, etc.)
Intrinsic	Work environment (intrinsic job interest, working with colleagues, leadership, autonomy)	Learning and development (training, promotion, secondments, etc.)

the high levels of discretionary commitment that underpins high performance. But as Reilly and Brown (2008, p. 43) argue, often there is little empirical or even theoretical basis for much of the organizational activity on employee engagement, and the link with reward practices is "an under-emphasised, under-leveraged and still misunderstood area." D. Brown and West's (2005) study of customer service organizations, for example, revealed that this broader rewards context is critical to creating the totally rewarding and engaging employee experience, which is associated with high levels of customer service delivery. It included aspects such as positive line-manager behavior, employees feeling involved and respected, and flexible working and career development policies, which were all displayed more strongly in the highest-performing companies.

So why are employee views and nonfinancial rewards still given such short shrift in much of the reward-strategy literature? Part of the reason for the failure to consider non-financial reward may lie in the way reward management is theorized. Perhaps the most dominant academic discipline in the field is economics. As a discipline, it is powerful in its status, dominant among those that senior managers have studied, has a particular parsimonious and narrow set of accepted research methods, and tends to make to some harsh assumptions about human orientations to reward. Milgrom and Roberts (1992), for example, adopt a view of human motivation that is akin to McGregor's (1957) negative Theory X perspective. In an influential textbook, they depict individuals as homo economicus who is rational and "self-seeking with guile." This leads to the tendency that Gerhart and Rynes (2003, p. 48) note of economic approaches to studying pay to assume it is the "only incentive."[1] This is dangerous precisely because of the power that economics has as a discipline within the management and business field, illustrated by the comment of the well-known U.K. pay consultant Helen Murlis that "economists make more noise than psychologists" (personal communication). This tendency may be reinforced by the increasing influx of finance and accounting professionals into senior reward roles, with the expertise to design and model the prevailing, complex executive incentive plans, but little knowledge of the behavioral sciences or motivational theories.

The restricted range of acceptable research methods in the economics field can also limit the boundaries of problems and questions that economists are prepared to consider in relation to reward. Gerhart and Rynes argue that economists are less interested in studying people's likes and dislikes in relation to reward because they are "too difficult to measure" (2003, p. 55). Even more worryingly, academics from different disciplines show a marked reluctance to collaborate with each other to research reward processes and outcomes. And the problem of discipline specificity in studying reward processes is noted by Werner and Ward (2004).

Economists, finance professionals, and managers would benefit from paying closer attention to work in psychology. The contribution of studies in the field of psychology that have implicitly or explicitly criticized pay for its (lack of) motivational impact is well known but appears to have had remarkably little impact on the actual design of reward systems. Here the content theorists of motivation have the most relevance. Alderfer (1972) and McClelland (1987) do not even address pay in their categorizations of motivating factors, focusing instead on priorities such as achievement, power, and affiliation. While not mentioning reward explicitly, Maslow's (1954) model of ascending needs in order of priority encompasses reward as a necessary condition for the satisfaction of security and physiological needs such as food and shelter, functioning as a "hygiene factor" in Herzberg's model. Reward might also contribute toward the achievement of status but offers little assistance toward achieving social bonds or fulfillment of personal potential and development of individual talents. The weaknesses of financial reward are challenged most explicitly by cognitive evaluation theory (Deci & Ryan, 2002), which notes problems with all extrinsic motivational tools that do not support intrinsic individual perceptions of their own competence and autonomy in executing tasks.

Herzberg (1968) famously claimed that pay functions only as a retrospective reward that prevents dissatisfaction, rather than possessing the potential to create positive feelings of satisfaction that are held by other management tools. Vroom (1964) is one of the most respected process theorists of motivation, but the content implications of his framework are almost always overlooked. A close reading of his work shows that the notion of valence or value of the reward to the individual, upon which the rest of the framework hangs, has a qualitative as well as a quantitative dimension. In other words, managers need to be asking about what kind of reward as well as how much of it they should be offering to employees.

More recently, two very significant bodies of work have developed that have much to offer in situating financial rewards in a broader suite of management tools. First, psychological contract theory, developed by Rousseau (1995) and others, explores the mutual expectations that organizations and employees hold about each other's inputs to the employment relationship. Many empirical studies in this field have analyzed the relative importance

 DOI: 10.1002/tie

of different forms of reward and their impact on employee behavior, with evidence broadly stressing the importance of mixed strategies. Second, the growth of organizational justice theory has placed much greater attention on processes by which decisions about HRM policies are made. Strands in this literature emphasize both the importance of employee involvement in reward package design (Folger & Konovsky, 1999) and the relative importance of different forms of intrinsic and extrinsic reward (Cox, 2005; Greenberg & Colquitt, 2005).

So why have psychologists had so little impact on reward practice? The rest of this article addresses two potential explanations. First, managers may not believe the research and be attached to a different set of beliefs about motivation. Second, managers may have heard the message but regard the consequences for managing employees as unpalatable. Managers may be attached to beliefs in the power of reward as a motivator for a number of reasons. Pay is an appealingly easy reward mechanism and has obvious characteristics that have contributed to its popularity apart from provision for basic needs. It is visible and easily quantifiable, and while individuals may have a greater or lesser degree of attachment to it, none are likely to have negative preferences, unlike, for example, job mobility, frequent long-distance travel, or particular patterns of working time. The underlying presumption that money motivates is embedded in the operation of executive pay markets where large bonuses are likely to be powerful in steering and shaping behaviors. It is easy to make the assumption that what motivates managers will motivate employees.

Reliance on money may also serve to de-emphasize the importance of managers themselves and their behavior in motivating, or rather demotivating their staff. U.K. research studies on engagement often paint a picture of comparatively low levels of employee satisfaction by international standards, with nonfinancial factors playing an important role. Truss et al. (2006), for example, found that immediate line-manager behavior was the most important factor explaining low levels of employee engagement among the sample of U.K. employees, with the lack of development and recognition also significant influences.

Managerial decision-making processes have also been shown to be limited by bounded rationality leading to the use of heuristics or shortcuts in reward-system design. This can lead to path dependence in decision making about rewards. Cox (2005) and Corby et al. (2005) show that faith, hope, and personal beliefs about reward shape both the use of reward systems and how they are evaluated. In particular, this notes a tendency among executives to assume that what motivates them will motivate the rest of the workforce and an assumption that if pay systems are found wanting, this is due to problems of design or implementation, rather than a willingness to consider the possibility that alternative forms of reward might be more appropriate.

Employees may seek, value, and respond to rewards that are not directly financial but involve quite different outcomes such as career development or training opportunities, meeting working time preferences, personal recognition, and gaining a sense of meaning from work.

In addition to managers deliberately or inadvertently ignoring research evidence, the evidence base they use also requires improvement. This is especially important for establishing differences between the impact of different kinds of reward and relative preferences held among different groups of workers. Gerhart and Rynes (2003) argue that very few studies exist that had made a distinction between satisfaction with pay compared to satisfaction with other job dimensions to influence employee attitudes and behaviors. Ambrose and Kulik (1999) undertook a weighty review of the area and referred to a number of studies in which employees and managers consistently attach relatively low levels of importance to financial rewards. Employees may seek, value, and respond to rewards that are not directly financial but involve quite different outcomes such as career development or training opportunities, meeting working time preferences, personal recognition, and gaining a sense of meaning from work. D. Brown and Purcell (2007, p. 30) quote Mary Kay Ash's comment that "the only things more powerful than money and sex are praise and recognition."

Recent work on the concept of employee "engagement" by both the Institute for Employment Studies and the CIPD in the United Kingdom has shown that pay and benefits do not tend to appear as the most important items in predicting positive employee behaviors, although little research has been located that explores this concept in the rest of Europe. Robinson et al. (2007) show that feeling involved in and valued at the workplace, together with job satisfaction, are the most important elements here. Ambrose and Kulik's review also reports some evidence to show that praise and recognition from supervisors had positive effects in improving employee performance across a variety of occupations, but go on to note that research into this kind of reinforcement theory is in its infancy (1999, p. 266). Once employees are recruited, Hansen, Smith, and Hansen (2002) emphasize a sharp distinction between the function of reward and recognition in organizations, using the work of the motivation theorists to underpin them. They argue that reward systems function as control mechanisms and will only yield minimally compliant behaviors, whereas recognition mechanisms are more likely to reward exceptional effort appropriately.

Underpinning much research in this area is a repeated confusion between the different functions of pay. Rynes, Gerhart, and Minette (2004) argue that we are in danger of underestimating the importance of pay as a motivator, suggesting that employees make different assumptions about peer preferences versus their own and tend to report socially desirable, nonavaricious preferences in job characteristics.

In order to grasp both the variety and similarity of reward preferences across an increasingly diverse workforce profile, employers will need to consult and involve employees there more carefully and extensively.

However, their review of a considerable amount of self-reported employee data focuses on employee preferences about pay relative to other job characteristics at the point of recruitment and does not capture the relative importance of pay versus other factors as a means of extracting more effort once the individual is doing the job. This is important for organizations wishing to make the link from reward mechanisms back to business strategy because we need to understand the impact of reward on employee in-role performance, rather than abstract preferences expressed prior to taking up a job. Much more research is required to tease out the impact of different forms of financial and nonfinancial reward on employee behaviors in the workplace, and in particular in relation to motivation and retention.

Problems and Challenges in Identifying and Satisfying Employee Reward Preferences

There are two key challenges if reward professionals are to address the challenge of taking employee reward preferences seriously, which is essential if they want to implement their reward strategies more effectively: (1) how to customize reward systems across an entire workforce and (2) how to ensure managers deliver both the financial and nonfinancial elements of the package as intended in practice. In order to grasp both the variety and similarity of reward preferences across an increasingly diverse workforce profile, employers will need to consult and involve employees there more carefully and extensively. The typical U.K. employer's attitude or engagement survey usually has a few questions on reward, but they generally reveal little meaningful information about the role and potential of financial and nonfinancial motivators. It is likely that there is an element of fear of the kind of response that employers may receive, which deters them from undertaking this kind of exercise. But it might be helpful for independent research to investigate this area; Gerhart and Milkovich (1992) notice the implications of a lack of guidance for managers, as they cannot tell into which elements of HRM they should invest the most time and resources. It is arguable that lack of information about employees' relative responses to different kinds of rewards represents a serious deficiency in the HRM literature, which researchers should address with alacrity. However, assuming that innumerable configurations of reward preferences are identified among a workforce, employers are then confronted with the dilemma of how to aggregate this information. It would be necessary to segment staff into groups that are sufficiently large for the transaction costs of delivering common rewards to be

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manageable but sufficiently small to ensure that diversity of preferences are accommodated. The process needs to be affordable, and employee expectations about the degree of choice require managing. The difficulty of reward-system design that takes employee perspectives into account more fully is therefore considerable.

At present, flexible benefits are one option that can lead to accommodating employees' reward preferences more effectively. In the past decade, employee choice and preferences about reward have slowly been taken more seriously, as illustrated in the growth of "flexible benefits" schemes (Towers Perrin, 2000). There is some doubt as to whether the flurry of interest and promotion of these schemes by consultants has actually yielded much take-up in Europe. In the United Kingdom, the CIPD reward survey reports only 8% of respondents have adopted such schemes (2007, p. 27), though they are more prevalent among larger organizations, Vodafone being an example (IDS, 2007). There are, however, interesting, if still limited, examples of employers engaging in closer dialogue with employees about reward choices. The Nationwide Building Society is quoted by the CIPD (2007) as having developed a "forced choice" survey of employees to establish how they prioritize different elements of reward. At present, though, this is only confined to employee valuations of different forms of benefits. While flexible benefits can offer employees some degree of choice over tangible rewards such as holiday, pensions, and personal insurance, they do not and cannot meet all the reward expectations that employees might have.

A broad conceptualization of reward is more holistic but challenging to implement. Zingheim and Schuster (2000) acknowledge it in their concept of "total reward," which includes intrinsic as well as extrinsic factors. It offers greater potential to incorporate the nonfinancial dimensions of reward that employees report finding so valuable. There is theoretical and empirical support for the need for a total approach, reflected in research that finds both shared and divergent reward preferences across European countries. For example, evidence from a survey of low to intermediate skilled workers in six countries found that autonomy and peer and customer pressure were universally influential on levels of effort exerted, while pay incentives were important to generate changes in levels of effort. However, pay was much more important to French employees, while for Greek staff performance monitoring was a more salient factor (Pouliakas & Theodossiou, 2009). Other international work has indicated greater differentiation between employees from different countries with respect to their preferences among nonfinancial rewards, coupled with a generalized preference for skills-based reward systems (Chiang & Birtch, 2005).

Appreciation of the significance that employees attach to nonfinancial attributes of work is not yet widespread. There is very little empirical evidence about the application of total reward systems or indeed the direct involvement of individual employees in the choice of rewards in a European context. In the United Kingdom, only 41% of organizations surveyed by the CIPD think of rewards holistically by using a total reward approach (2007). It is unsurprising that total reward philosophies are not more prevalent, since providing meaningful work and supportive workplace cultures with lots of praise and recognition demands continuous management, with involvement from a greater number of people, in a way that implementing a new bonus scheme does not. Delivering the other components of employee aspirations is much more complicated because the outputs are often intangible and long-term. Achieving career development, for example, requires identification of employees' goals and needs, ongoing support from line managers, and learning interventions. These kinds of strategies may also not be attractive to organizations that have historically tended to rely on "transactional"-type psychological contracts for the transient sections of their workforce. These have predominated in some parts of the retailing, catering, and hospitality sectors, for example, which have also accounted for a large proportion of new jobs created in U.S. and European economies. In front-line service roles, the focus of the employment relationship was traditionally simply confined to the wage-effort bargain, and only in the past decade or so have some parts of the sector sought to gain competitive advantage through front-line staff. For those organizations wishing to create intrinsic reward mechanisms, a major difficulty is the role of line managers.

There is voluminous evidence that illustrates the difficulties of delivering HR and particularly reward strategies and practices through busy operational managers, who may have imperfect understanding of and commitment to people management processes. In relation to reward, Purcell and Hutchinson (2007) have shown that, like their employee customers, line managers are generally marginalized by HR and reward professionals in the reward-strategy development process and may have little training in implementing and administering the "sharp end" of reward systems. But if the total reward perspective is a valid one and emphasis needs to shift from simply operating pay and appraisal systems accurately and fairly to ensuring that each employee feels valued and involved in workplace decision making, then line managers have a significant challenge to confront and organizations need to educate and involve them much more in reward-strategy design.

Much recent restructuring of HR departments along the lines promoted by Ulrich (1997) has led to the removal of local HR support roles and the transfer of much of the people management responsibility onto line managers, in order that HR staff can devote more time and resources to their more value-adding and strategic role. Reward strategies and systems are more likely to be developed by a centralized team of experts who may be remote from operational experience of the organization. And, indeed, the implications of thinking about reward and engagement preferences is that line managers are the best-placed people to deliver praise and recognition and encourage staff career development, to create that totally rewarding context. The key question is do they have the skills and support to do this?

In relation to this, Brown and Purcell (2007) report that many line managers in their study admitted making insufficient use of informal rewards in the day-to-day pressures of organizational life. But they also found many managers struggling with the increasingly complex and inflexible formal pay systems developed centrally and often administered online by HR departments, with little attention paid to the situation or needs of those managers, who really are the people who can make their pristine reward strategies happen in the realities of organizational life. They note the potential of line managers' creative use of informal and social rewards to plug the commitment and motivation gap that formal reward systems have not managed to fill. They give the example of a line manager who rewards high-performing team members with secondments and access to training. Some line managers also appeared to be working around inflexible reward systems by using their discretion to offer access to flexible working time. HR and reward professionals might do well, they conclude, to spend slightly less time impressing the company board with their reward strategies and more time out with line managers and employees in the organization to improve the effectiveness of the delivery of those strategies. Of course, this objective requires balancing against the need to maintain status for a profession that has struggled to gain boardroom credibility.

Conclusions

For those who adhere to the top-down, pay-driven concept of reward strategy, this article should provoke and disturb. Its conclusion is that we need to think less rather than more about grand plans in the boardroom and temper our obsession with the use of financial incentives in the workplace, thinking instead about their optimal positioning in a suite of management practices. The evidence discussed shows the dangers of fixation with financial incentives as the default reward mechanism of choice, and with concepts of reward strategy that focus on planning rather than processes, concepts rather than communications, and intent rather than impact. The function of pay to recruit and retain staff is undisputed, but it must not be confused with broader total rewards mechanisms that will elicit engagement and higher performance from employees in their roles. Detailed analysis of the forms of financial and nonfinancial reward that have the most impact on employees in each organizational setting is required to investigate the relative significance of these different elements. We need to know how responses to different kinds of reward vary according to the demographic characteristics of employees—for example, by sectors and occupations, staff grades, age, ethnicity, and gender. Far better tools and methods for assessing employee attitudes and preferences for rewards need to be developed and more widely tested and applied, as greater workforce diversity means that the former one-size-fits-all assumptions are much less likely to satisfy entire organizations. This is especially important for organizations operating on a pan-European basis, where multiple influences of organizational and national cultures may contribute to shaping employee needs and expectations.

For organizations, the implication is that there needs to be a refocusing of pay and reward activity away from strategic business-aligned plans and complex pay scheme designs toward more employee and operationally focused work. There are no universal best practices or quick wins. Effective delivery of rewards through line management is going to remain an ongoing challenge, and reward-strategy implementation is about a broad range of activities over a lengthy timescale. It will not simply involve ensuring managers comply with centrally determined pay-system requirements, but depends on managers' personal capabilities in giving praise and recognition, supporting career development, and making accessible working time preferences, all areas where HR professionals should be providing guidance and support. This is the true meaning of a total rewards strategy, rather than simply implementing a flexible benefits plan. Neither is it the sole responsibility of managers to understand the implications of total reward; unions, compensation consultants, and employment tribunals alike need to pay more serious attention to nonfinancial forms of reward.

Compensation and benefits professionals might feel concerned about the potential marginalization of their role in this situation. But the challenge for them and specialist HR practitioners in areas like training and development is to determine how their function can maximize

its contribution in delivering a total reward package that will elicit engagement and high performance from their employees. Focusing on organizationally specific alignment of reward policies with business priorities in a more flexible way by involving employees and line managers as customers of their reward systems could avoid the pitfalls of rigid and mechanistic contingency models. This could enable strategic ambitions of higher organizational performance through reward to be realized in practice in many more workplaces.

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Note

1. We gratefully acknowledge the point made by a reviewer of this article that among influential psychologists in the United States, there is also a tendency to overemphasize the power of money in designing reward systems.

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