

## 1. Strategic Reward<sup>1</sup>

Strategic reward management is the process of looking ahead at what an organization needs to do about its reward policies and practices in the middle or relatively distant future. It is concerned with the broader business issues the organization is facing and the general directions in which reward management must go to provide help in dealing with these issues in order to achieve longer-term business goals.

Strategic reward management deals with both ends and means. As an end it describes a vision of what reward policies will look like in a few years' time. As a means, it shows how it is expected that the vision will be realized. Strategic reward management is therefore visionary management, concerned with creating and conceptualizing ideas of what the organization should be doing about valuing and rewarding its people. But it is also empirical management, which decides how in practice it is going to get there.

The foundation of strategic reward management is an understanding of the needs of the organization and its employees and how they can best be satisfied. It is also very much concerned with developing the values of the organization on how people should be rewarded and formulating guiding principles that will ensure that these values are enacted.

As described in this chapter, strategic reward management is about the development and implementation of reward strategies and the guiding principles that underpin them. The chapter starts with a definition of reward strategy, followed by a description of the purpose and features of reward strategies. Approaches to the development of reward strategies are then considered and the chapter ends with notes on criteria for effectiveness.

### 1.1. REWARD STRATEGY DEFINED

Reward strategy clarifies what the organization wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals. It is a declaration of intent, which establishes priorities for developing and acting on reward plan that can be aligned to business and HR strategies and to the needs of people in the organization. Brown<sup>1</sup> believes that: 'reward strategy is ultimately a way of thinking that you can apply to any reward issue arising in your organization, to see how you can create value from it'.

### 1.2. THE PURPOSE OF REWARD STRATEGY

The aim of reward strategy is to support the corporate and HR strategies and align reward policies and processes to organizational and individual needs. It provides a sense of purpose and direction and a framework for reward planning. In the words of Rosabeth Moss Kanter,<sup>2</sup> business strategies exist 'to elicit the present actions for the future' and to become 'action vehicles - integrating and institutionalising mechanisms for change'. This is also the case with reward strategies.

There are four powerful arguments for developing reward strategies:

1. You must have some idea where you are going, or how do you know how to get there and how do you know that you have arrived (if you ever do)?
2. Pay costs in most organizations are by far the largest item of expense; so doesn't it make sense to think about how they should be managed and invested in the longer term?
3. There can be a positive relationship between rewards, in the broadest sense, and performance, so shouldn't we think about how we can strengthen that link?
4. As Cox and Purcell<sup>3</sup> write, 'the real benefit in reward strategies lies in complex linkages with other human resource management policies and practices'. Isn't this a good reason for

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<sup>1</sup> From: Armstrong, M. & Helen Murlis. 2005. *Reward Management*. A Handbook of Remuneration Strategy and Practice. Kogan Page, London, pp. 29-55

developing a reward strategic framework that clearly indicates how reward processes will be linked to other HR strategies and processes so that they are coherent and mutually supportive?

### 1.3. FEATURES OF REWARD STRATEGY

Reward strategy is an undertaking about what is going to be done in the future. It is concerned with the direction the organization should follow in developing the right mix and levels of financial and non-financial rewards to support the business strategy. It will set out 1) the underpinning guiding principles (the reward philosophy), 2) the intentions - this is what we propose to do, 3) a rationale - this is why we intend to do it, and 4) a plan - this is how we propose to do it.

However, Mintzberg, Quinn and James suggest that strategy can have a number of meanings other than that of being 'a plan, or something equivalent - a direction, a guide, a course of action'. Strategy can also be:

- a pattern, that is, consistency in behaviour over time; I
- a perspective, an organization's fundamental way of doing things; I
- a ploy, a specific 'manoeuvre' intended to outwit an opponent or a competitor.

#### 1.3.1. The reality of reward strategy

There is always a danger of reward strategy promising much but achieving little. The rhetoric contained in the guiding principles may not turn into reality. Espoused values may not become values-in-use. The things that are meant to happen may not happen.

Reward strategy can too easily be unrealistic. It may appear to offer something worthwhile but the resources (money, people and time) and capability to make it happen are not available. It may include processes such as performance management that only work if line managers want to make them work and are capable of making them work. It may be met by total opposition from the trade unions.

#### 1.3.2. The characteristics of reward strategy

As Murlis points out: 'Reward strategy will be characterised by diversity and conditioned both by the legacy of the past and the realities of the future.' All reward strategies are different just as all organizations are different. Of course, similar aspects of reward will be covered in the strategies of different organizations but they will be treated differently in accordance with variations between organizations in their contexts, strategies and cultures.

#### 1.3.3. Reward strategy and business strategy

One of the defining features of strategic reward is that reward strategy should be aligned to (fit) the business strategy. According to this concept, reward strategy as an aspect of HR strategy exists to satisfy business needs and support the achievement of business goals. A serious objection to this notion is that it ignores the needs of the people in the organization. It can also be argued that it is simplistic in suggesting that 'fit' is easily attained. It is not. The formulation of business strategy is a complex, interactive process influenced by a variety of contextual and historical factors. In these circumstances, asks Guest 'how can there be a straightforward flow from the business strategy to the HR strategy?'. Hendry and Pettigrew<sup>7</sup> suggest that there are limits to the extent to which rational HR strategies can be drawn up if the process of business strategic planning is itself irrational.

Fit may be difficult to attain but reward strategy needs to take into account an important approach to business strategy that has evolved over the last decade. This is the concept of resource-based strategy, which is founded on the belief expressed by Hamel and Prahalad<sup>8</sup> that competitive advantage is obtained if a firm can obtain and develop human resources that enable it to learn faster and apply its learning more effectively than its rivals. Barney<sup>9</sup> contends that sustained competitive advantage stems from the acquisition and

effective use of bundles of distinctive resources that competitors cannot imitate. The benefits arising from competitive advantage based on the effective management of people are that such a resource advantage is hard to imitate. An organization's HR and reward strategies, policies and practices are a unique blend of processes, procedures, personalities, styles, capabilities and organizational culture. One of the keys to competitive advantage is the ability to differentiate what the business supplies to its customers from what is supplied by its competitors. Such differentiation can be achieved by having HR and reward strategies that ensure that 1) the firm has higher-quality people than its competitors, 2) the unique intellectual capital possessed by the business is developed and nurtured, and 3) a culture is created that encourages commitment, engagement and continuous development.

#### 1.3.4. Reward strategy and HR strategy

Reward strategy is only part - albeit an important part - of an organization's HR strategy. It is necessary to ensure that reward strategies are 'bundled' with other HR strategies so that they complement and reinforce one another. For example, job family structures as described in Chapter 16 can define career paths and thus provide the basis for planning career progression as well as producing a framework for managing performance and contribution and the delivery and management of pay. This is another argument for developing a total reward approach as a major aspect of reward strategy.

#### 1.3.5. Reward strategy and line management capability

HR can initiate new policies and practices but it is the line that has the main responsibility for implementing them. In other words, 'HR proposes but the line disposes'. As pointed out by Purcell et al. high levels of organizational performance are not achieved simply by having a range of well-conceived HR policies and practices in place. What makes the difference is how these policies and practices are implemented. That is where the role of line managers in people management is crucial: 'The way line managers implement and enact policies, show leadership in dealing with employees and in exercising control come through as a major issue' (Purcell et al).

The trend is, rightly, to devolve more responsibility for managing reward to line managers. Some will have the ability to respond to the challenge and opportunity; others will be incapable of carrying out this responsibility without close guidance from HR; some may never be able to cope. Managers may not always do what HR expects them to do and, if compelled to, they may be half-hearted about it. This puts a tremendous onus on HR and reward specialists to develop line management capability, to initiate processes that can readily be implemented by line managers, to promote understanding by communicating what is happening, why it is happening and how it will affect everyone, to provide guidance and help where required and to provide formal training as necessary.

#### 1.3.6. Reward strategy and employees

All employees, including line managers, are stakeholders in the reward strategy. It affects their interests and, to a greater or lesser extent, meets their needs. While the reward strategy does not define the employment relationship, it plays a large part in it. The employment relationship can have a transactional basis - the employee provides skill and effort to the employer in return for which the employer provides the employee with a salary or a wage, the traditional economist's concept of the effort bargain. It also has a relational basis - intangible relationships are developed that take place within the work environment and are affected by the processes of leadership, communications and giving employees a voice, and by how jobs are designed and expectations of behaviour and performance are agreed. The psychological contract - the mutual and often implicit beliefs of employees and employers of

what they expect of one another - will strongly affect the employment relationship and has both transactional and relational characteristics.

As stakeholders, employees need to be given a voice in the formulation of the reward strategy. The strategy has to take account of the mutual expectations of management and employees - who are all stakeholders in the organization alongside the owners, the customers and the community. It must also recognize both the transactional and relational aspects of the employment relationship by developing a total reward approach as described in Chapter 2.

#### *1.4. THE STRUCTURE OF REWARD STRATEGY*

There may be no such thing as a model reward strategy but there are a number of headings that can be used to provide a logical structure for the expression of the particular strategic intentions of a business. It has been suggested by Richardson and Thompson" that any strategy must have two key elements: there must be strategic objectives that define what the strategy is supposed to achieve, and there must be a plan of action that sets out how the objectives will be met. In other words, the two basic strategic planning questions are: 'Where are we going?' and 'How are we going to get there?'. To these could be added two more questions: 'Why do we want to get there anyhow?' and 'What values or guiding principles should we adopt in implementing the strategy?'.

The structure of a reward strategy could be built round these four questions as follows:

1. A definition of guiding principles - the values that it is believed should be adopted in formulating and implementing the strategy.
2. A statement of intentions - the reward initiatives that it is proposed should be taken.
3. A rationale - the reasons why the proposals are being made. The rationale should make out the business case for the proposals, indicating how they will meet business needs and setting out the costs and the benefits. It should also refer to any people issues that need to be addressed and how the strategy will deal with them.
4. A plan - how, when and by whom the reward initiatives will be implemented. The plan should take account of resource constraints and the need for communications, involvement and training. The priorities attached to each element of the strategy should be indicated.

#### *1.5. GUIDING PRINCIPLES*

Guiding principles define the approach an organization takes to dealing with reward. They are the basis for reward policies and provide guidelines for the actions contained in the reward strategy They express the philosophy of the organization - its values and beliefs - about how people should be rewarded.

Members of the organization should be involved in the definition of guiding principles, which can then be communicated to everyone to increase understanding of what underpins reward policies and practices. However, employees will suspend their judgement of the principles until they experience how they are applied. What matters to them is not the philosophies themselves but the pay practices emanating from them and the messages about the employment 'deal' that they get as a consequence. It is the reality that is important, not the rhetoric.

##### *1.5.1. Fundamental values*

Guiding principles may incorporate or be influenced by some general beliefs about fairness, equity, consistency and transparency.

##### *Fairness*

Fairness means that reward management processes should operate fairly in accordance with the principles of distributive and procedural justice. As defined by Leventhal distributive justice refers to how rewards are distributed. People will feel that they have been treated justly (fairly) in this respect if they believe that rewards have been distributed in accordance with

the value of their contribution, that they receive what was promised to them and that they get what they need. Procedural justice refers to the ways in which managerial decisions are made and HR procedures are put into practice. The five factors that affect perceptions of procedural justice as identified by Tyler and Bies are:

1. The viewpoint of employees is given proper consideration.
2. Personal bias towards employees is suppressed.
3. The criteria for decisions are applied consistently to all employees.
4. Employees are provided with early feedback about the outcome of decisions.
5. Employees are provided with adequate explanations of why decisions have been made.

### *Equity*

Equity is achieved when people are rewarded appropriately in relation to others within the organization. Equitable reward processes ensure that relativities between jobs are measured as objectively as possible and that equal pay is provided for work of equal value.

### *Consistency*

A consistent approach to the provision of rewards means that decisions on pay should not vary arbitrarily and without due cause between different people or at different times. They should not deviate irrationally from what would be generally regarded as fair and equitable.

### *Transparency*

Transparency means that people understand how reward processes operate and how they are affected by them. The reasons for pay decisions should be explained to them at the time they are made. Employees should have a voice in the development of reward policies and practices and should have the rights to be given explanations of decisions and to comment on how they are made.

### *Specific guiding principles*

Reward guiding principles may be concerned with such specific matters as:

- developing reward policies and practices that support the achievement of business goals;
- providing rewards that attract, retain and motivate staff and help to develop a high-performance culture;
- maintaining competitive rates of pay;
- rewarding people according to their contribution;
- recognizing the value of all staff who are making an effective contribution, not just the exceptional performers;
- allowing a reasonable degree of flexibility in the operation of reward processes and in the choice of benefits by employees;
- devolving more responsibility for reward decisions to line managers.

## **1.6. THE CONTENT OF REWARD STRATEGY**

Reward strategy may be a broad-brush affair simply indicating the general direction in which it is thought reward management should go. Additionally or alternatively, reward strategy may set out a list of specific intentions dealing with particular aspects of reward management.

### **1.6.1. Broad-brush reward strategy**

A broad-brush reward strategy may commit the organization to the pursuit of a total rewards policy. The basic aim might be to achieve an appropriate balance between financial and non-financial rewards. A further aim could be to use other approaches to the development of the employment relationship and the work environment that will enhance commitment and

engagement and provide more opportunities for the contribution of people to be valued and recognized.

Examples of other broad strategic aims include 1) introducing a more integrated approach to reward management - encouraging continuous personal development and spelling out career opportunities, 2) developing a more flexible approach to reward, which includes the reduction of artificial barriers as a result of overemphasis on grading and promotion, 3) generally rewarding people according to their contribution, 4) supporting the development of a performance culture and building levels of competence, and 5) clarifying what behaviours will be rewarded and why.

#### 1.6.2. Specific reward initiatives

The selection of reward initiatives and the priorities attached to them will be based on an analysis of the present circumstances of the organization and an assessment of the needs of the business and its employees. The following are examples of possible specific reward initiatives, one or more of which might feature in a reward strategy:

- the replacement of present methods of contingent pay with a pay for contribution scheme;
- the introduction of a new grade and pay structure, e.g. a broad banded or job family structure;
- the replacement of an existing decayed job evaluation scheme with a scheme that more clearly reflects organizational values and needs;
- the improvement of performance management processes so that they provide better support for the development of a performance culture and more clearly identify development needs;
- the introduction of a formal recognition scheme; the development of a flexible benefits system;
- the conduct of equal pay reviews with the objective of ensuring that work of equal value is paid equally;
- communication and training programmes designed to inform everyone of the reward policies and practices of the organization and ensure that those who conduct performance reviews or make or influence pay decisions have the necessary skills.

#### *1.7. DEVELOPING REWARD STRATEGY*

The formulation of corporate strategy can be described as a process for developing and defining a sense of direction. A logical step-by-step model for doing this is illustrated in Figure 3.1. This incorporates ample provision for consultation, involvement and communication with stakeholders; these include senior managers as the ultimate decision makers as well as employees generally and line managers in particular.

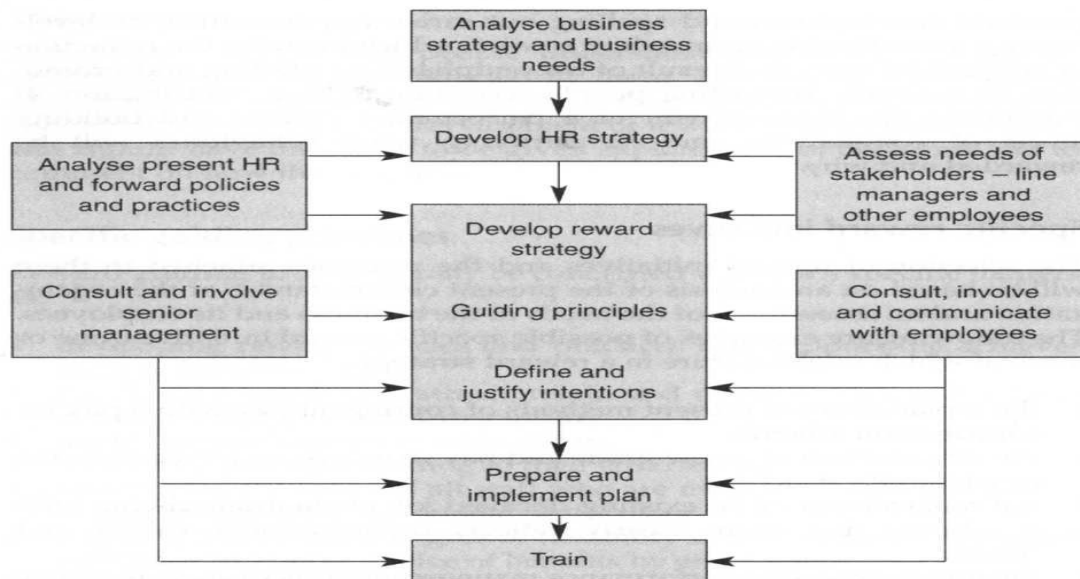


Figure 3.1 A model of the reward strategy development process

In practice, however, the formulation of reward strategy is seldom as logical and linear a process as this. Quinn produced the concept of 'logical incrementalism', which states that strategy evolves in several steps rather than being perceived as a whole. This notion was developed by Mintzberg, who believes that strategy formulation is not necessarily rational and continuous. In theory, he says, strategy is a systematic process: first we think, then we act; we formulate, then we implement. But we also 'act in order to think'. In practice, 'a realised strategy can emerge in response to an evolving situation' and the strategic planner is often 'a pattern organiser, a learner if you like, who manages a process in which strategies and visions can emerge as well as be deliberately conceived'. Strategy, according to Mintzberg, is best regarded as a 'pattern in a stream of activities'.

These opinions about the nature of strategy formulation suggest that, while a logical approach as shown in Figure 3.1 may provide a desirable model, the reality is different. Reward strategists do not start with a clean sheet. They have to take note and keep taking note of the changing situation in their organization, including the needs of stakeholders. They will have to take particular account of financial considerations - the concept of 'affordability' looms large in the minds of chief executives and financial directors, who will need to be convinced that an investment in rewards will pay off.

Reward strategists must also track emerging trends and may modify their views accordingly, as long as they do not leap too hastily on the latest bandwagon. It may be helpful to set out reward strategies on paper for the record and as a basis for planning and communication. But this should be regarded as no more than a piece of paper that can be torn up when needs change - as they will - not a tablet of stone. However, it is still desirable to have a clear view shared with management and other stakeholders about future intentions even if this may have to change, and there are certain criteria as set out below that can be used to judge the effectiveness of the strategy as a broad but possibly evolving statement of intent, which may usefully be recorded in writing.

### 1.8. CRITERIA FOR AN EFFECTIVE REWARD STRATEGY

According to Brown, effective reward strategies have three components:

1. They have to have clearly defined goals and a well-defined link to business objectives.
2. There have to be well-designed pay and reward programmes, tailored to the needs of the organization and its people, and consistent and integrated with one another.

3. Perhaps most important and most neglected, there need to be effective and supportive HR and reward processes in place. A check list for assessing the effectiveness of reward strategy delivery as drawn upon Brown is shown in Figure 3.2

Figure 3.2 Reward strategy delivery?

Objectives	Rating*
1 Reinforce the achievement of corporate goals.	
2 Recruit and train staff of the required calibre.	
3 Strong relationships between pay and performance.	
4 Reinforce organizational values.	
5 Motivating for our employees.	
6 Cost effective.	
7 Well communicated, supported and understood by staff.	
8 Managed effectively in practice by line managers.	
9 Efficient to operate and maintain.	
10 Flexible to react quickly to change.	

\*Scale: 10 = incredible, 5 = OK, 1 = appalling

**2. Reward Policies**

Reward policies provide guidelines for the implementation of reward strategies and the design and management of reward processes. They will be influenced strongly by the guiding principles and reward philosophy of the organization. The reward policies will be concerned with:

- the level of rewards;
- the relative importance attached to market rates and equity;
- attraction and retention;
- the relationship of rewards to business performance;
- total reward policy;
- the scope for the use of contingent rewards related to performance, competence, contribution or skill; assimilation policies;
- the degree of flexibility required; the role of line managers;
- the need to involve employees in the design of the reward system;
- the need to communicate reward policies to employees;
- transparency - the publication of information on reward structures and processes to employees.

**2.1. LEVEL OF REWARDS**

The policy on the level of rewards indicates whether the company is a high payer, is content to pay median or average rates of pay or even, exceptionally, accepts that it has to pay below the average. Pay policy, which is sometimes referred to as the 'pay stance' or 'pay posture' of a organization, will depend on a number of factors. These include the extent to which the organization demands high levels of performance from its employees, the degree to which there is competition for good-quality people, the traditional stance of the company, the organization culture, and whether or not it can or should afford to be a high payer. A firm may say 'We will pay upper-quartile salaries because we want our staff to be upper-quartile performers.'

Policies on pay levels will also refer to differentials and the number of steps or grades that should exist in the pay hierarchy. This will be influenced by the structure of the company. In today's flatter organizations an extended or complex pay hierarchy may not be required on the grounds that it does not reflect the way in which work is organized and will constrain flexibility.



Policies on the level of rewards should also cover employee benefits -pensions, sick pay, health care, holidays and perks such as company cars.

## *2.2. MARKET RATE AND EQUITY*

A policy needs to be formulated on the extent to which rewards are market driven rather than equitable. This policy will be influenced by the culture and reward philosophies of the organization and the pressures on the business to obtain and keep high-quality staff. Any organizations that have to attract and retain staff who are much in demand and where market rates are therefore high may, to a degree, have to sacrifice their ideals (if they have them) of internal equity to the realism of the market place. They will provide 'market pay'; in other words, they will be 'market driven'. The pay management process must cope as best it can when the irresistible force of market pressures meets the immovable object of internal equity. There will always be some degree of tension in these circumstances and, while no solution will ever be simple or entirely satisfactory, there is one basic principle that can enhance the likelihood of success. That principle is to make explicit and fully identifiable the compromises with internal equity that are made and have to be made in response to market pressures.

The policy may indicate that market considerations will drive levels of pay in the organization. It may, however, allow for the use of market supplements - additional payments to the rate for a job as determined by job evaluation (internal equity), which reflect market rates. The policy may lay down that these payments should be reviewed regularly and no longer offered if they are unnecessary. Market supplements for those who have them may not be withdrawn (they would not lose pay), but adjustments may be made to pay progression to bring their rates more into line with those for comparable jobs. Market pay and market supplements can lead to gender inequalities if, as is often the case, men in comparable jobs are paid more generously or more men get market supplements than women. Equal pay case law (see Chapter 11) has ruled that market pay and market supplements should be 'objectively justified' and the requirement to do this should be included in the pay policy

## *2.3. ATTRACTION AND RETENTION*

Market pay and market supplements are the first resort of firms wishing to attract and retain high-quality people. 'Golden hellos' and 'golden handcuffs' (recruitment and retention bonuses) may be used for this purpose. But there is more to attracting and retaining people than simply throwing money at them. A total reward policy as described in Chapter 2 is required.

### *2.3.1. Attraction policies*

The overall policy should be to become an employer of choice. More specifically, an attraction strategy will need to be based on a competitive remuneration package (possibly including 'golden hellos'). In addition, the policy should be to adopt a targeted approach. This means analysing the factors for specific occupations or categories of employees that are likely to affect their decision to apply for jobs and to accept them when offered because they potentially offer higher rewards in the broadest sense than those they are getting at present or could obtain elsewhere. These factors could include career prospects, training and development opportunities, the intrinsic interest of the work, flexible working arrangements and other work/life balance policies and, especially for research workers, the facilities available to them and the scope to enhance their reputation.

### *2.3.2. Retention policies*

Retention policies take into account the particular retention issues the organization is facing and sets out ways in which these issues can be dealt with. This may mean accepting the reality, as mentioned by Capelli, that the market, not the company, will ultimately determine

the movement of employees. Capelli believes that it may be difficult to counter the pull of the market - 'you can't shield your people from attractive opportunities and aggressive recruiters' - and suggests that: 'The old goal of HR management - to minimize overall employee turnover - needs to be replaced by a new goal: to influence who leaves and when.' This, as proposed by Bevan, Barber and Robinson, could be based on risk analysis to quantify the seriousness of losing key people or of key posts becoming vacant.

### 2.3.3. Talent management policies

The overall approach to the attraction and retention of good-quality people can be described as 'talent management', which goes far beyond crude attempts to cure the problem with money. Talent management is the process of 'winning the war for talent' by ensuring that the organization attracts, retains, motivates and develops the talented people it needs. There is nothing new about the various processes that add up to talent management. What is different is the development of a more coherent view as to how these processes should mesh together with an overall objective - to acquire and nurture talent wherever it is and wherever it is needed by using a number of interdependent policies and practices. Talent management is the notion of 'bundling', ie linking HR policies and practices together so that they are mutually supportive, in action. It should not, however, be assumed that talent management is only concerned with key people - the high flyers. Everyone in an organization has talent, and talent management processes should not be limited to the favoured few, although they are likely to focus most on those with scarce skills and high potential. The key talent management processes are:

- developing the organization as an 'employer of choice' - a 'great place to work';
- using selection and recruitment procedures that ensure that good-quality people are recruited who are likely to thrive in the organization and stay with it for a reasonable length of time (but not necessarily for life);
- designing jobs and developing roles that give people opportunities to apply and grow their skills and provide them with autonomy, interest and challenge;
- providing talented staff with opportunities for career development and growth;
- creating a working environment in which work processes and facilities enable rewarding (in the broadest sense) jobs and roles to be designed and developed;
- providing scope for achieving a reasonable balance between working
- in the organization and life outside work;
- developing a positive psychological contract;
- developing the leadership qualities of line managers;
- recognizing those with talent by rewarding excellence, enterprise and achievement;
- conducting talent audits that identify those with potential and those who might leave the organization.

### 2.4. *RELATING REWARDS TO BUSINESS PERFORMANCE*

This aspect of reward policy refers to the link between business performance and pay. It will cover the extent to which pay will vary according to results. Ability to pay and value for money will also be important considerations. The policy will include guidelines on how gain sharing or profit-sharing schemes should operate (see Chapters 25 and 26).

### 2.5. *TOTAL REWARD*

The total reward policy should state that although contingent rewards play an important part in the reward policies of the organization other forms of non-financial reward are regarded as being equally important.

### 2.6. *CONTINGENT REWARDS*

The policy will need to determine whether or not the organization wants to pay for performance, competence, contribution or skill and, if so, how much and under what circumstances. There may, for example, be a policy that bonuses should be paid for exceptional performance but that, to be significant, they should not be less than, say, 10 per cent of basic pay, while their upper limit should be restricted to 30 per cent or so of base pay. The policy may also indicate the approach to be used in relating pay to individual, team or organizational performance.

### *2.7. ASSIMILATION POLICIES*

The introduction of a new or considerably revised pay structure means that policies have to be developed on how existing employees should be assimilated into it. These policies cover where they should be placed in their new grades and what happens to them if their new grade and pay range means that their existing rate is above or below the new scale for their job. The policy should therefore cover 'red-circling' (identifying and dealing with overpaid people) and 'green-circling' (identifying and dealing with underpaid people). In the case of red-circled staff, 'protection' policies may have to be formulated to safeguard their existing rates of pay. In the case of green-circled staff, the policy may have to determine when (not if) their pay should be increased to fit into the new scale. It is sometimes necessary to save costs by phasing the increase and this should be included as a possible policy. Assimilation policies are dealt with in greater detail in Chapter 17.

### *2.8. FLEXIBILITY*

Reward policies have to take into account the extent to which reward processes should operate flexibly in response to fast-changing conditions, the adoption of a less rigid organization structure and approach to management, and changes or variations in the needs of the company or its employees. A particular aspect of this policy will be the extent to which the organization wants to introduce flexible benefits (see Chapter 32).

### *2.9. THE ROLE OF LINE MANAGERS*

Line managers play a crucial role in administering rewards, and the policy should recognize this. The extent to which the responsibility for rewards should be devolved to line managers is a policy decision. The aim may be to devolve it as far as possible, bearing in mind the need to ensure that other reward policy guidelines are followed and that consistent decisions are made across the organization by line managers. The policy may cover the level of decisions managers can make, the guidance that should be made available to them and how consistency will be achieved. The training and ongoing support that line managers require to exercise judgements on reward and to conduct performance management reviews could also be covered by the policy.

### *2.10. INVOLVING EMPLOYEES*

Reward policies and practices are more likely to be accepted and understood and, therefore, more effective if employees are given a voice in the design and management of reward processes. This particularly applies to job evaluation and methods of measuring and assessing performance and relating rewards to that performance (performance management and paying for performance or contribution processes).

### *2.11. COMMUNICATING TO EMPLOYEES*

Reward processes are powerful media for conveying messages to employees about the organization's values and the contribution they are expected to make in upholding those values and achieving the organization's goals. They should not, however, be left to speak for themselves. It is essential to communicate to individuals, teams and representative bodies what reward processes are setting out to do, how they propose to do it, how they affect them,

how they will benefit, and the part individuals and teams will be expected to play. It is particularly important to explain the basis of any pay-for-performance scheme and also to convey to employees how their total remuneration package of pay and other benefits is made up.

#### *2.12. TRANSPARENCY*

Traditionally, organizations in the private sector have tended to keep some information about pay policies secret. This is no longer a tenable position. Employees will only feel that the reward management processes of an organization are fair if they know what they are and how they are used to determine their level of pay and methods of pay progression. Lack of understanding breeds suspicion and hostility. One of the aims of reward management should be to enhance commitment, but there is no possibility of this being achieved if the organization is secretive about pay.

Without transparency, people will believe that the organization has something to hide, often with reason. There is no chance of building a satisfactory psychological contract unless the organization spells out its reward policies and practices and the reasons for them. Transparency is achieved through effective involvement and communication.

### **3. The Psychological Contract**

Managing reward is largely about managing expectations - what employees expect from their employers in return for their contribution and what employers expect from their employees in return for their pay and the opportunity to work and develop their skills. Expectations are built into the employment relationship, the starting-point of which, from the reward point of view, is an undertaking by an employee to provide effort and skill to the employer, in return for which the employer provides the employee with a salary or a wage.

There are two types of contracts which define the employment relationship:

1. Transactional contracts, which have well-described terms of exchange. These have a basis in law and are usually expressed in financial terms with specified performance requirements. They are also called 'Economic contracts'.
2. Relational contracts, which are less well defined or may not be defined at all. They have more abstract terms and refer to an open-ended membership of the organization. Performance requirements attached to membership may be incomplete or ambiguous.

Transactional/economic contracts are expressed in formal contracts of employment, which may be written or unwritten, and specify or indicate terms and conditions of employment. Relational contracts are expressed, in so far as they are expressed at all, in what is usually called a psychological contract, the essence of which is that it is implied rather than stated and is not subject to agreement. In a sense, the term psychological contract is an oxymoron. A contract, as defined by the Oxford English Dictionary, is a written or spoken arrangement or agreement made between two or more persons, usually enforceable by law. The word 'psychological' means that the arrangement is only in the minds of those concerned - it is not agreed between them. A contract is an agreed mutual undertaking. The terms are contradictory. However, the notion of a psychological contract has now entered the vocabulary of the HR professionals and is therefore a useful way of referring to all those aspects of the employment relationship which are neither well-defined nor clearly understood. And these 'relational' aspects of employment are those which exert the greatest influence on the motivation, commitment, morale and job satisfaction of employees.

The concept of the psychological contract is an important one to anybody involved with reward management because it is concerned with defining and meeting expectations concerning pay, performance and the development and application of competence and skill. This chapter therefore starts by defining the psychological contract and its characteristics, continues by examining its significance in the employment relationship and concludes with

some ideas on how HR, including reward policies and processes, can contribute to the development and maintenance of a productive and mutually satisfactory relationship.

### *3.1. THE PSYCHOLOGICAL CONTRACT DEFINED*

Fundamentally, the psychological contract as researched by David Guest who has led UK work in this area, and others, expresses the combination of beliefs held by an individual and his or her employer about what they expect of one another. The concept is not a new one. It was first defined by Ed Schein in 1965 as follows:

The notion of a psychological contract implies that there is an unwritten set of expectations operating at all times between every member of an organization and the various managers and others in that organization.

This definition was amplified by Rousseau and Wade-Benonzi more recently. They stated that:

Psychological contracts refer to beliefs that individual hold regarding promises made, accepted and relied upon between themselves and another... Because psychological contracts represent how people interpret promises and commitments, both parties in the same employment relationship (employer and employee) can have different views regarding specific terms

More succinctly, Sims<sup>3</sup> defined a psychological contract in 1994 as:

The set of expectations held by the individual employee that specify what the individual and organization expect to give and receive from one another in the course of their working relationship.

### *3.2. CHARACTERISTICS OF THE PSYCHOLOGICAL CONTRACT*

A psychological contract is a system of beliefs which encompasses, on the one hand, the actions employees believe are expected of them and what response they expect in return from their employer; and, on the other, the behaviour employers expect from their employees. A psychological contract is implicit. It is also dynamic - it develops over time.

The aspects of the employment relationship covered by the psychological contract will include, from the employee's point of view:

- how s/he is treated in terms of fairness, equity and consistency;
- security of employment;
- scope to demonstrate competence;
- career expectations and the opportunity to develop skills;
- involvement and influence;
- trust in the organization to keep its promises;
- the expectation that s/he will be managed competently.

From the employer's point of view, the psychological contract covers such aspects of the employment relationship as:

- competence;
- effort;
- compliance;
- commitment;
- loyalty.

Some interesting insights into the nature of the psychological contract were provided by the IPD Templeton / Birkbeck College research conducted in 1995. This revealed the following:

- 65 per cent of respondents felt that they had a lot of direct involvement in deciding how to do their jobs and organize their work;
- 40 per cent had a lot of loyalty to their company;
- 26 per cent trusted their company a good deal to keep its promises to employees.

### *3.3. CHANGING NATURE OF THE PSYCHOLOGICAL CONTRACT*

Until fairly recently the psychological contract has not been an issue. People knew what to expect - you turned up to work, did what was required and the organization provided security and development. It was not a complicated relationship and for most organizations it worked well, providing them with a loyal, committed and dependable workforce.

Times have changed.

- Business organizations are neither stable nor long-lived - uncertainty prevails and job security is no longer on offer by employers who are less anxious to maintain a stable workforce - as Mirvis and Hall<sup>4</sup> point out, organizations are making continued employment explicitly contingent on the fit between people's competencies and business needs.
- Flexibility, adaptability and speed of response are all-important and individual roles may be subject to constant change - continuity and predictability are often no longer available for employees. Leaner organizations mean that careers may mainly develop laterally - expectations that progress will be made by promotion through the hierarchy are often no longer valid.
- Leaner organizations may make greater demands on employees and are less likely to tolerate people who no longer precisely fit their requirements.

But, more positively, many organizations are realizing that steps have to be taken to increase mutuality and to provide scope for lateral career development and improvement in knowledge and skills through opportunities for learning. They recognize that, because they can no longer guarantee long-term employment, they have the responsibility to help people continue to develop their careers if they have to move on. In other words, they take steps to improve employability. Even those which have fully embraced the 'core-periphery' concept may recognize that they still need to obtain the commitment of their core employees and pay attention to their continuous development, although in most organizations the emphasis is likely to be on self-development

The ways in which psychological contracts are changing will, of course, vary between organizations but some of the positive and less positive developments are summarized in Table 2.1.

These trends are summarized by Hiltrop, who suggests that a new psychological contract is emerging - one that is more situational and short-term and which assumes that each party is much less dependent on the other for survival and growth. He believes that in its most naked form, the new contract could be defined as follows:

There is no job security. The employee will be employed as long as he or she adds value to the organization, and is personally responsible for finding new ways to add value. In return, the employee has the right to demand interesting and important work, has the freedom and resources to perform it well, receives pay that reflects his or her contribution, and gets the experience and training needed to be employable here or elsewhere.

But this could hardly be called a balanced contract. To what extent do employees in general have 'the right to demand interesting and important work'? Employers still call the shots, except when dealing with the special cases of people who are much in demand and in short supply. In Britain, as Mant<sup>6</sup> points out, 'people often really are regarded as merely "resources" to be acquired or divested according to short-term economic circumstances'. It is the employer who has the power to dictate contractual terms unless they have been fixed by collective bargaining. Individuals, except when they are highly sought after, have little scope to vary the terms of the contract imposed upon them by employers.

Table 2.1 The ways in which psychological contracts are changing

From	To
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Imposed relationship (compliance, command and control) Permanent employment relationship Focus on promotion Finite job duties Meet job requirements Emphasis on job security and loyalty to company Training provided by organization	Mutual relationship (commitment, participation and involvement) Variable employment relationship -people and skills only obtained or retained when required Focus on lateral career development Multiple roles Add value Emphasis on employability and loyalty to own career and skills Opportunities for self-managed learning
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### 3.4. THE SIGNIFICANCE OF THE PSYCHOLOGICAL CONTRACT

As suggested by Spindler: 'A psychological contract creates emotions and attitudes which form and control behaviour.' The significance of the psychological contract was further explained by Sims as follows:

A balanced psychological contract is necessary for a continuing, harmonious relationship between the employee and the organization. However, the violation of the psychological contract can signal to the participants that the parties no longer share (or never shared) a common set of values or goals.

The concept highlights the fact that employee/employer expectations take the form of unarticulated assumptions. Disappointments on the part of management as well as employees may therefore be inevitable. These disappointments can, however, be alleviated if managements appreciate that one of their key roles is to manage expectations. This means clarifying what they believe employees should achieve, the competencies they should possess and the values they should uphold. And this is a matter not just of articulating and stipulating these requirements, but of discussing and agreeing them with individuals and teams.

The psychological contract governs the continuing development of the employment relationship, which is constantly evolving over time. But how the contract is developing and the impact it makes may not be fully understood by any of the parties involved. As Spindler<sup>7</sup> comments:

In a psychological contract the rights and obligations of the parties have not been articulated, much less agreed to. The parties do not express their expectations and, in fact, may be quite incapable of doing so.

People who have no clear idea about what they expect may, if such unexpressed expectations have not been fulfilled, have no clear idea why they have been disappointed. But they will be aware that something does not feel right. And a company staffed by 'cheated' individuals who expect more than they get is heading for trouble.

The importance of the psychological contract was emphasized by Schein<sup>1</sup> who suggested that the extent to which people work effectively and are committed to the organization depends on:

1. The degree to which their own expectations of what the organization will provide to them and what they owe the organization in return matches what the organization's expectations are of what it will give and get in return;
2. The nature of what is actually to be exchanged (assuming there is some agreement) - money in exchange for time at work; social need satisfaction and security in exchange for hard work and loyalty; opportunities for self-actualization and challenging work in exchange for high-productivity, high-quality work, and creative effort in the service of organizational goals; or various combinations of these and other things.

### 3.5. DEVELOPING AND MAINTAINING A PRODUCTIVE PSYCHOLOGICAL CONTRACT

#### 3.5.1. General approaches

In general, the following steps can be taken to shape and define the psychological contract, develop a more productive employment relationship and increase employee commitment:

- During recruitment interviews, present the unfavourable as well as the favourable aspects of a job in a 'realistic job preview'.
- In induction programmes, communicate to new starters the organization's personnel policies and procedures and its core values, indicating to them the standards of performance expected in such areas as quality and customer service, and spelling out requirements for flexibility.
- Issue and update employee handbooks and intranet entries which reinforce the messages delivered in induction programmes.
- Develop performance management processes, which ensure that performance and competence expectations are discussed, agreed and reviewed regularly.
- Encourage the use of personal development plans, which spell out how continued improvement of performance can be achieved, mainly by self-managed learning.
- Use training and management development programmes to underpin core values and define performance expectations.
- Ensure through manager and team leader training that managers and team leaders understand their role in managing the employment relationship, through such processes as performance management and team leadership.
- Encourage the maximum amount of contact between managers and team leaders and their team members, to achieve mutual understanding of expectations and provide a means of two-way communication.
- Adopt a general policy of transparency - ensuring that on all matters which affect them, employees know what is happening, why it is happening and the impact it will make on their employment, development and prospects.
- Develop personnel procedures covering grievance handling, discipline, equal opportunities, promotion and redundancy; and ensure that they are implemented fairly and consistently.
- Develop and communicate personnel policies covering the major areas of employment, development, reward and employee relations.

### 3.5.2. Implications for reward management

Reward management policies and processes can be used to develop and support a productive psychological contract in the following ways:

- Pay people on the basis of their contribution to the organization, rather than relying on the carrot of promotion as a reward for loyalty and service.
- Reward people according to their developing competence and skills, as long as these are used to good purpose.
- Rely upon contingent pay more as a means of conveying messages about organizational values, critical success factors and priorities and how people are expected to contribute in specified areas, rather than as a direct motivator.
- Include both input (competence) and output (achievement of objectives) factors in performance management reviews so that employees can, with their managers, focus on expected behaviours. Develop team reward systems that emphasize the importance of team work, flexibility and multiskilling.
- Introduce gain sharing schemes which underline the propositions that 'we are all in this together' by sharing gains in added value and involving employees in analyzing performance and proposing improvement.
- Communicate to employees the reasons for reward innovations and how they will be affected by them.
- Involve employees in the development of new reward processes and structures.



- Provide training to everyone (managers and other employees alike) on the operation and implications of reward policies and practices, especially when they are being changed.

#### 4. Управление на системата за възнаграждения<sup>2</sup>

Тя е елемент на системата за управление на човешките ресурси. Управлението осъществява организационната стратегия и политика на ръководството чрез системата на възнаграждение, т. е. техните намерения, виждания, интереси и цели за развитието и мотивирането на персонала.

Управлението на възнагражденията има силно влияние върху различни области от управлението на хората: заетост, лоялна оценка на приноса, иновациите и риска, на стила на управление, климата, качеството на трудовия живот, производителността и удовлетвореността на изпълнителите. Резултатите от ефективното ѝ управление са свързани с изпълнението на цели, получаване на печалби и финансовата стабилност на организацията. Достойното оценяване и възмездяване на работещите повишават устойчивостта, просперитета на организацията, персонализацията на професионализма, прилагането на екипния модел на работа при коректни междуличностни отношения.

Технологията на разработване и управление на системата на възнаграждение е представена на фиг. 6.2.

Фигура 6.2. Система на възнаграждение на човешките ресурси

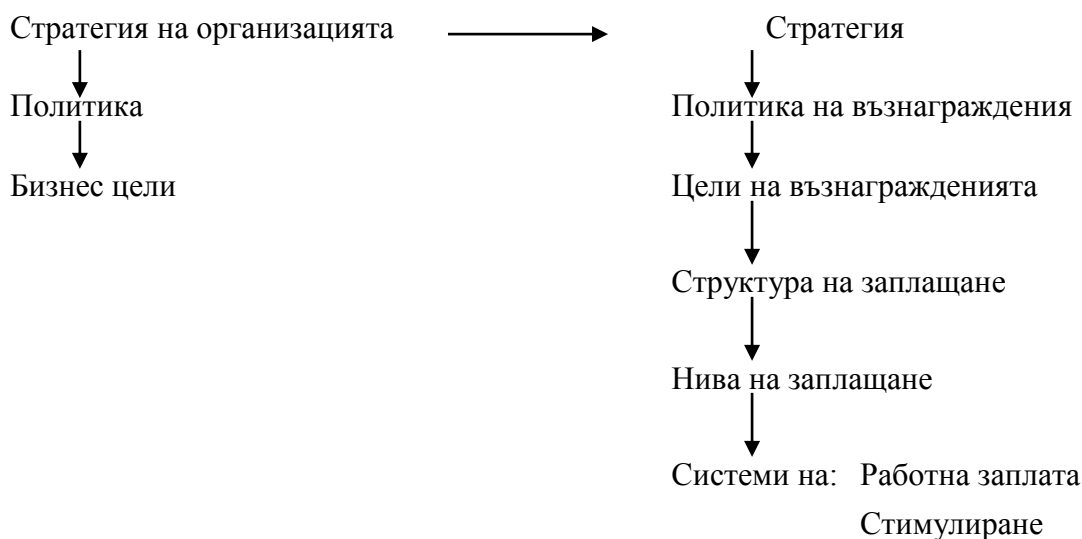


Таблица 6.5. Политика на възнаграждения

<sup>2</sup> По: Харизанова, М., Бояджиев, Д., Миронова, Н. (2006). Управление на човешките ресурси. Инвестиция в бъдещето. Авангард Прима, София, глава 6, *Управление на възнагражденията*, с. 118-120

Бизнес стратегия	Позиции на пазара	Стратегия по възнагражденията	Съчетание от възнаграждения
Експанзия	Бързо израстване	Стимулиране на предприемачество	Високо (над средното) заплащане поощрения за индивидуално представяне Атрактивни придобивки
Запазване на позициите (стабилизиращи)	Развитие и постигане на зрелост	Възнаграждаване на способностите	Средно ниво на доходите със съвременни поощрения върху индивидуалното, груповото или фирменото представяне Стандартни придобивки
Използване на печалбата за инвестиране в други пазарни ниши (Диверсификация)	Спиране на растежа и упадък	Наблягане на контрола върху разходите	Под средното ниво на заплащане с малки поощрения, свързани с контрола на разходите Стандартни придобивки

Системата за управление на възнагражденията е обвързана със фирмената стратегия, политика и цели. Ясно формулираната бизнес стратегия води до ясно дефинирана стратегия и политика на възнаграждения (табл. 6.5).

Стратегията за управление на възнагражденията се идентифицира със намеренията на организацията да осигури квалифициран персонал, да гарантира неговата заетост и да стимулира изпълнението на фирмените цели.

Основата за разработване на стратегиите за възнаграждение на ЧР е:

- фирмена стратегия, цели, култура;
- квалифициран персонал;
- управленски стил, стимулиращ изпълнение на цели, адекватна оценка и възнаграждение, поведение за висококачествена работа.

В зависимост от позициите на организацията на пазара и стратегията ѝ, се определя политиката на възнаграждения (табл. 6.5).

Основните принципи, отразени в политиката на възнагражденията трябва да бъдат:

- Постигане на съгласие по отношение на възнагражденията (ръководители и наемни работници, ръководители и синдикати и т. н.).
- Справедливост при възнагражденията.
- Обвързване с мотивацията.

При формиране на политиката на възнагражденията се анализира влиянието на следните фактори:

- Фактори, които предизвикват най-бързо и постоянно изпълнение и мотивация.
- Фактори, които влияят върху равнищата на заплащане.
- Фактори, които предизвикват по-голямо удовлетворение от възнагражденията.
- Фирмена култура.
- Посочените фактори са в зависимост от това, какво предизвикват:
- Факторите, предизвикващи *изпълнение*, зависят от различния тип персонал, с който разполага организацията.
- Факторите, които предизвикват *мотивацията* са свързани с очакванията и усилията на хората, които трябва да бъдат адекватно възнаградени.
- Тези, които влияят на *равнищата на заплащане* са свързани с влиянието на външната среда и индивидуалния принос на всеки.
- *Фирмената култура* влияе на ценностите и предприемаческия дух, който стимулира работодателя и персонала.

- *Удовлетворението от труда* е важен фактор, който трябва да бъде стимулиран чрез постигане на справедливост чрез системите за възнаграждение, чрез удовлетворяване на очакванията и достойнството. Това се постига чрез сравнението с другите и самооценка.

Когато фирмената стратегия и политика за възнагражденията са ясно очертани, трябва да се детайлизират в целите на възнагражденията, структурата, нивата на заплащане и системите на възнаграждение, разработени в предходните параграфи. През последните 15-20 години, компаниите в света съсредоточават своето внимание при управление на възнагражденията върху немонетарните възнаграждения, тяхното разнообразяване и обогатяване. Чрез тях те повишават стимулите за съпричастност, за съгласие и лоялност при реализация на фирмените цели.

## 5. Политика по възнаграждения<sup>3</sup>

Политика ни е необходима поради следните причини:

- систематизира основните принципи за управление на възнагражденията;
- описва начините, по които инвестициите във възнаграждения се обвързват с бизнес стратегията и стратегията за развитие на човешките ресурси;
- определя ясна обвързаност на системата на възнаграждения с останалите процеси в компанията;
- гарантира ясни правила;
- определя елементите на възнагражденията и съдържанието на вътрешните правила за работна заплата;
- полага основите за осигуряване на вътрешна справедливост и външна конкурентоспособност.

Политиката е по-общ документ, който дава описание и определения на елементите на възнаграждения, общи насоки за това, кога и как се използват, служителите, които са обхванати от нея.

Подробното описание на елементите в системата на възнаграждения се дава във вътрешните правила за работна заплата, където се съдържат подробни инструкции за процесите и дейностите при формиране, длъжностите, за които се отнасят, честота на изплащане и т.н. на всички елементи от системата на възнаграждения.

### 5.1. КОМУНИКАЦИЯ НА ДОКУМЕНТИТЕ ПО ВЪЗНАГРАЖДЕНИЯ

В практиката си често се сблъскваме с мнението, че всичко, свързано с възнагражденията, трябва да е поверително. Моето мнение е доста по-различно. Не може да очакваме желано поведение, без да обясним на съответните служители как да го постигнат, какви са критериите за измерване на успеха и на какво възнаграждение могат да разчитат при коректно изпълнение на възложените задачи. Поради тази причина е необходимо да използваме всяка възможност да запознаваме, разясняваме и изслушваме служителите си относно всички въпроси, свързани с възнагражденията.

### 5.2. ОФЕРТА ПРИ НАЗНАЧАВАНЕ

В голяма част от дружествата след процеса на подбор и избор на най-подходящия кандидат се изпраща конкретна оферта, в която се описват основните параметри на предлаганата длъжност. Това е първата възможност да запознаем бъдещия си колега с елементите и размерите на бъдещото му възнаграждение. Естествено тук не можем да дадем подробности за начините на формиране, целите или

<sup>3</sup> По: Каменов, Б. (2011). Управление на възнагражденията. София, Сиела, с. 124-128

измерителите на успеха, но можем да предоставим информация за това, което го интересува на първо време - размер на фиксираната месечна заплата, общи правила за бонуси, придобивки за дължността.

### 5.3. ВЪВЕЖДАНЕ НА НОВ СЛУЖИТЕЛ

След приемане на оферта по време на плана за въвеждане на новия служител е време да го запознаем подробно със:

- вътрешните правила за работна заплата, да му опишем начина, по който е формирана началната заплата, и диапазона, в който може да варира неговото възнаграждение в зависимост от индивидуалното представяне;
- всички вътрешнофирмени документи, от които зависи възнаграждението;
- начина и периодичността на прегледа на възнагражденията;
- детайлно описание на допълнителните стимули, които може да получи в зависимост от постигане на поставените цели (бонуси);
- размер и периодичност на придобивките - права и задължения при ползването им;
- промяна във възнагражденията.

### 5.4. ПРЕДСТАВЯНЕ НА МЕТОДИТЕ ЗА ОПРЕДЕЛЯНЕ НА ВЪЗНАГРАЖДЕНИЯТА

Изключително важно е поне веднъж годишно да провеждаме срещи с всички служители, за да им припомним основните правила за формиране на възнагражденията и да чуем тяхното мнение по политиката ни. Това може да се осъществи при провеждане на общо фирмени конференции, обучения на големи групи служители и представлява отлична възможност за специалистите по възнаграждения да излязат от анонимност и да представят цялата картина на възнагражденията. Подобни срещи са абсолютно задължителни при извършване на промяна в политиката, въвеждане на нови елементи или промяна в организацията на обработка на възнагражденията. Трябва да се знае, че липсата на информация в областта на възнагражденията винаги води до негативни реакции у служителите, създаване на слухове и напрежение.

### 5.5. ГОДИШНА ПРОМЯНА НА ВЪЗНАГРАЖДЕНИЕТО

След провеждане на годишна оценка или атестация през времето, в което се извършват дейностите по определяне на индивидуалните възнаграждения, настъпва период на очаквания у служителите, който може и трябва да бъде използван. За да постигне нужния ефект, комуникацията трябва да бъде проведена преди реалното изплащане или получаване на фишовете за заплати. Обикновено се използват два начина на комуникация или комбинация от тях:

- специалистите по възнаграждения изготвят индивидуални писма с общо описание на методите за определяне на фиксираните месечни заплати, информация за новия размер на възнаграждението, припомняне на елементите на възнаграждение, които формират общия пакет от възнаграждения и придобивки;
- специалистите по възнаграждения изготвят списъци с новите размери на фиксираните месечни заплати по организационни звена и подготвят презентация за ръководителите на тези звена. Ръководителите от своя страна провеждат индивидуални срещи и запознават своите подчинени с размера на новото им възнаграждение, начина, по който е формирана, и останалите елементи и придобивки.

Какъвто и подход да се използва, трябва да сме сигурни, че споделяната информация ще бъде най-добре чута от служителите.

### 5.6. МНЕНИЕ НА СЛУЖИТЕЛИТЕ

Консултантите от „Делойт“ използват интересен метод, наречен диалог за възнагражденията, като част от методологията за създаване и промяна на политиката по

възнаграждения. Представлява систематизиран подход за събиране мнението, очакванията и нуждите на ключови служители относно възнагражденията, който цели синхронизиране на мотивиращите фактори за служителите и мотиваторите, предоставяни от съответната компания. За отчитане мнението на служителите говорехме още в самото начало - като една от основните характеристики на общото възнаграждение и без значение какъв метод използваме при събиране на информацията ни помага да фокусираме елементите на общото възнаграждение по най-добрия начин.

## 5.7. ВЪВЕЖДАНЕ НА НОВИ ЕЛЕМЕНТИ ИЛИ ПРОМЯНА В ПРАВИЛАТА

При установяване нужда от промяна, въвеждане на нови елементи служителите, чиито възнаграждения ще бъдат засегнати от промяната, задължително се информират по време на нарочни срещи. Разясняват се причините за промяната, целите, които се преследват, правилата, които трябва да се следват, начините, по които служителите могат да повлияят, финансовият резултат, който могат да постигнат.

Не на последно място - законодателни изисквания:

Чл. 37 КТ задължава работодателя да кани и гарантира правото на органите на синдикалните организации в предприятието да участват в подготовката на проектите на всички вътрешни правилници и наредби, които се отнасят до трудовите отношения, за което работодателят задължително ги поканва.

Дейностите по колективното трудово договаряне отново изискват тясно взаимоотношение с представители на синдикалните организации.

Основните теми по време на преговорите са свързани с въпросите на възнагражденията, поради което специалистите по възнаграждения трябва да бъдат отлично подготвени и запознати с принципите и правилата за дефиниране на различните елементи в политиката или вътрешните правила. Другото изискване за провеждане на ефективни преговори и консултации е тези специалисти да притежават специфични умения за водене на преговори и защита на мнение, умение за ефективно представяне на фирмата.

Не трябва да се забравя, че веднъж договорени и съгласувани, условията по възнагражденията, трудно се преговарят и редуцират.

По мнение на експертите от HAY Group, публикувано в сайта на компанията, възнагражденията са едни от най-лошо управляваните разходи в компаниите. Подобни коментари съм срещал по време на срещи и обучения. В практиката съществуват редица примери, когато „щедри“ пакети от възнаграждения не водят до преследвания от акционерите резултат. Случвало ми се е да чувам мнение на топ мениджъри, че нивата на възнаграждения в ръководените от тях компании са доста над тези в отрасъла или сектора, но не получават адекватното представяне от служителите. Често акцентите, поставени в организация на възнагражденията, се разминават с нуждите на служителите и водят до резултати, различни от очакваните.

Надявам се, че настоящата разработка ще ви накара да търсите във всяка система за възнаграждения основните елементи, превръщащи я в инструмент, който:

- подкрепя бизнес модела и бизнес целите;
- възнагражда доброто представяне;
- осигурява вътрешна справедливост и външна конкурентоспособност;
- отчита мнението на служителите;
- води до най-ефективна възвръщаемост на средствата, инвестирани във възнаграждения;
- осигурява открита комуникация за начина на изграждане, принципите и възможностите на системата за възнаграждения.

Темите, които разгледахме, със сигурност разширяват обсега, задълженията и начина на работа и изискванията към работата на специалистите по възнаграждения, но само по този начин те могат да осигурят баланс при изграждане на системите по възнаграждения, така че да постигнат нужния синхрон.

## **6. The psychological contract<sup>4</sup>**

This factsheet gives introductory guidance. It:

- defines the psychological contract
- considers what research into the psychological contract tells us about the changing employment relationship, and whether there is a 'new contract'
- looks at the strategic implications
- outlines some learning points for managers
- gives the CIPD viewpoint.

Research into the psychological contract between employer and employees has produced a number of important messages for managers and students of people management. Despite the academic origins of the term, many managers believe that the idea of the psychological contract offers a valid and helpful framework for thinking about the employment relationship against the background of a changing labour market.

### *6.1. What is the psychological contract?*

The term 'psychological contract' was first used in the early 1960s, but became more popular following the economic downturn in the early 1990s. It has been defined as '...the perceptions of the two parties, employee and employer, of what their mutual obligations are towards each other'<sup>1</sup>. These obligations will often be informal and imprecise: they may be inferred from actions or from what has happened in the past, as well as from statements made by the employer, for example during the recruitment process or in performance appraisals. Some obligations may be seen as 'promises' and others as 'expectations'. The important thing is that they are believed by the employee to be part of the relationship with the employer.

The psychological contract can be distinguished from the legal contract of employment. The latter will, in many cases, offer only a limited and uncertain representation of the reality of the employment relationship. The employee may have contributed little to its terms beyond accepting them. The nature and content of the legal contract may only emerge clearly if and when it comes to be tested in an employment tribunal.

The psychological contract on the other hand looks at the reality of the situation as perceived by the parties, and may be more influential than the formal contract in affecting how employees behave from day to day. It is the psychological contract that effectively tells employees what they are required to do in order to meet their side of the bargain, and what they can expect from their job. It may not - indeed in general it will not - be strictly enforceable, though courts may be influenced by a view of the underlying relationship between employer and employee, for example in interpreting the common law duty to show mutual trust and confidence.

A useful model of the psychological contract is offered by Professor David Guest of Kings College London (see table below). In outline, the model suggests that:

- the extent to which employers adopt people management practices will influence the state of the psychological contract
- the contract is based on employees' sense of fairness and trust and their belief that the employer is honouring the 'deal' between them
- where the psychological contract is positive, increased employee commitment and satisfaction will have a positive impact on business performance.

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<sup>4</sup> (<http://www.cipd.co.uk/subjects/empreltns/psycntrct/psycontr.htm>), Latest revision January 2007

### A model of the psychological contract

Inputs	Content	Outputs
employee characteristics	fairness	employee behaviour
organisation characteristics	trust	performance
HR practices	delivery	

#### 6.2. *What happens if the contract is broken?*

Research evidence shows that, where employees believe that management have broken promises or failed to deliver on commitments, this has a negative effect on job satisfaction and commitment and on the psychological contract as a whole. This is particularly the case where managers themselves are responsible for breaches, eg where employees do not receive promised training, or performance reviews are badly handled. Managers cannot always ensure that commitments are fulfilled - for example where employment prospects deteriorate or organisations are affected by mergers or restructuring – but they may still take some blame in the eyes of employees.

Managers need to remember:

- Employment relationships may deteriorate despite management’s best efforts: nevertheless it is managers’ job to take responsibility for maintaining them.
- Preventing breach in the first place is better than trying to repair the damage afterwards.
- But where breach cannot be avoided it may be better to spend time negotiating or renegotiating the deal, rather than focusing too much on delivery.

#### 6.3. *What has persuaded people to take the psychological contract seriously?*

Changes currently affecting the workplace include:

- The nature of jobs: more employees are on part time and temporary contracts, more jobs are being outsourced, tight job definitions are out, functional flexibility is in.
- Organisations have downsized and delayed: 'leanness' means doing more with less, so individual employees have to carry more weight.
- Markets, technology and products are constantly changing: customers are becoming ever more demanding, quality and service standards are constantly going up.
- Technology and finance are less important as sources of competitive advantage: 'human capital' is becoming more critical to business performance in the knowledge-based economy.
- Traditional organisational structures are becoming more fluid: teams are often the basic building block, new methods of managing are required.

The effect of these changes is that employees are increasingly recognised as the key business drivers. The ability of the business to add value rests on its front-line employees, or 'human capital'. Organisations that wish to succeed have to get the most out of this resource. In order to do this, employers have to know what employees expect from their work. The psychological contract offers a framework for monitoring employee attitudes and priorities on those dimensions that can be shown to influence performance.

#### 6.4. *Employer brand*

Employees in large organisations do not identify any single person as the 'employer'. The line manager is important in making decisions about day-to-day working but employees are also affected by decisions taken by the chief executive and HR department. In many cases employees may often have little idea who, if anyone, is personally responsible for decisions affecting their welfare or the future of the business. Unsurprisingly surveys confirm that employees tend to feel more confidence in their line manager, whom they see on a regular basis, than in anonymous members of senior management.

In order to display commitment, employees have to feel they are being treated with fairness and respect. Many organisations have concluded they need to create a corporate personality, or identity, that employees as well as customers will recognise and relate to. This leads them to identify a set of corporate values or set down the organisation's mission. The purpose of creating an 'employer brand' (sometimes referred to as the employment proposition) is to outline the positive benefits for employees of buying into the relationship with that employer. In practice the employer brand can be seen as an attempt by the employer to define the psychological contract with employees so as to help in recruiting and retaining talent.

#### 6.5. *The changing employment relationship: is there a new contract?*

The traditional psychological contract is generally described as an offer of commitment by the employee in return for the employer providing job security - or in some cases the legendary 'job for life'. The recession of the early 1990s and the continuing impact of globalisation are alleged to have destroyed the basis of this traditional deal since job security is no longer on offer. The new deal is said to rest on an offer by the employer of fair pay and treatment, plus opportunities for training and development. On this analysis, the employer can no longer offer security and this has undermined the basis of employee commitment.

But is this the case, and is there a 'new contract'? Research suggests that in many ways the 'old' psychological contract is in fact still alive. Employees still want security: interestingly labour market data suggest that there has been little reduction in the length of time for which people stay in individual jobs. They are still prepared to offer loyalty, though they may feel less committed to the organisation as a whole than to their workgroup. In general they remain satisfied with their job.

The kinds of commitments employers and employees might make to one another are given in the box below:

Employees promise to:	Employers promise to provide:
Work hard	Pay commensurate with performance
Uphold company reputation	Opportunities for training and development
Maintain high levels of attendance and punctuality	Opportunities for promotion
Show loyalty to the organisation	Recognition for innovation or new idea
Work extra hours when required	Feedback on performance
Develop new skills and update old ones	Interesting tasks
Be flexible, for example, by taking on a colleague's work	An attractive benefits package
Be courteous to clients and colleagues	Respectful treatment
Be honest	Reasonable job security
Come up with new ideas	A pleasant and safe working environment

A study of collective agreements in the last few years suggests that employers recognise employee concerns about security. Such agreements often state that compulsory redundancy will be used only as a last resort. However employers know they are unable to offer absolute security and employees do not necessarily expect it. Younger people - the so-called 'generation X' - want excitement, a sense of community and a life outside work. They are not interested, as some of their fathers and mothers were, in a 'job for life', nor do they believe any organisation can offer this to them. They expect to be treated as human beings.

#### The state of the psychological contract

Press reports suggest that UK employees are dissatisfied, insecure and lacking in commitment. Major national surveys, including those undertaken by CIPD between 1996 and 2004<sup>2</sup>, show that this picture is at best distorted:

- A majority of employees consistently report that they are satisfied with their jobs.



- Four out of five employees are not worried about losing their job, and most expect that if they did lose their job they would be able to find another one at similar pay without having to move house.
- Levels of commitment have not shown any significant trend - whether up or down - in recent years.
- However, trust in the organisation has declined somewhat, in both private and public sectors.
- There are continuing concerns about long hours and work intensity. But research findings suggest that managers can usefully focus on other issues. In particular:
  - **Employability:** Although job security cannot be guaranteed, employers can recognise employees' need to build up a 'portfolio' of skills and competencies that will make them more marketable. Employees can be helped to develop occupational and personal skills, become more pro-active and take more responsibility for their own careers.
  - **Careers:** Early comments on the likely impact of labour market change suggested that employers were no longer able to provide 'careers' and that this was bound to sour the employment relationship. Research suggests that, while organisations have been de-layering and reducing the number of middle management posts, most employees have in fact adjusted their career expectations downwards. Many will be satisfied if they believe that their employer is handling issues about promotion fairly. They may also benefit from the opportunity to negotiate alternative career options.
  - **Work-life balance:** There is an important link between employee feeling that they have got a satisfactory balance between work and the rest of their life, and having a positive psychological contract. Employers need to think through how employees can be helped to achieve such a balance - see our factsheet on Work life balance for further information.

#### *6.6. How important is communication?*

CIPD research into employee 'voice'<sup>3</sup> shows the importance of communication and specifically of dialogue in which managers are prepared to listen to employees' opinions. Managers need to manage expectations, for example through systems of performance management which provide for regular employee appraisals. HR practices also communicate important messages about what the organisation seeks to offer its employees. But employee commitment and 'buy-in' come primarily not from telling but from listening.

Employers are experimenting with a range of attitudinal and behavioural frameworks for securing employee inputs to management thinking as part of the decision-making process. This can be done face-to-face, for example through 'soap box' sessions, which encourage employees to speak their minds. Employee attitude surveys can also be an effective tool for exploring how employees think and feel on a range of issues affecting the workplace. In times of rapid change, managers and employees frequently hold contrasting opinions about what is going on. Two-way communication, both formal and informal, is essential as a form of reality check and a basis for building mutual trust.

#### *6.7. Strategic implications of the psychological contract*

Basically the psychological contract offers a metaphor, or representation, of what goes on in the workplace, that highlights important but often neglected features. It offers a framework for addressing 'soft' issues about managing performance; it focuses on people, rather than technology; and it draws attention to some important shifts in the relationship between people and organisations.

Most organisations could benefit from thinking about the psychological contract. The first priority is to build the people dimension into thinking about organisational strategy. If people are bottom-line business drivers, their capabilities and needs should be fully integrated into business process and planning. The purpose of business strategy becomes how to get the

best return from employees' energies, knowledge and creativity.

Employees' contribution can no longer be extracted by shame, guilt and fear: it has to be offered. Issues about motivation and commitment are critical. Yet many of the levers which managers have relied on to motivate employees are increasingly unreliable.

The psychological contract may have implications for organisational strategy in a number of areas, for example:

- **Process fairness:** People want to know that their interests will be taken into account when important decisions are taken; they would like to be treated with respect; they are more likely to be satisfied with their job if they are consulted about change. Managers cannot guarantee that employees will accept that outcomes on eg pay and promotion are fair, but they can put in place procedures that will make acceptance of the results more likely.

- **Communications:** Although collective bargaining is still widely practised in the public sector, in large areas of the private sector trade unions now have no visible presence. It is no longer possible for managers in these areas to rely on 'joint regulation' in order to communicate with employees or secure their co-operation. An effective two-way dialogue between employer and employees is a necessary means of giving expression to employee 'voice'.

- **Management style:** In many organisations, managers can no longer control the business 'top down' - they have to adopt a more 'bottom up' style. Crucial feedback about business performance flows in from customers and suppliers and front-line employees will often be best able to interpret it. Managers have to draw on the strategic knowledge in employees' heads.

- **Managing expectations:** Employers need to make clear to new recruits what they can expect from the job. Managers may have a tendency to emphasise positive messages and play down more negative ones. But employees can usually distinguish rhetoric from reality and management failure to do so will undermine employees' trust. Managing expectations, particularly when bad news is anticipated, will increase the chances of establishing a realistic psychological contract.

- **Measuring employee attitudes:** Employers should monitor employee attitudes on a regular basis as a means of identifying where action may be needed to improve performance. Some employers use indicators of employee satisfaction with management as part of the process for determining the pay of line managers. Other employers, particularly in the service sector, recognise strong links between employee and customer satisfaction. But employers should only undertake surveys of employee attitudes if they are ready to act on the results.

Managing change is a major challenge for organisations. HR professionals have a key role to play in contributing to top-level decisions about the direction and pace of change and in supporting line managers across the organisation in implementing them. The psychological contract can help HR managers to make the business case for incorporating effective people management policies and practices into the change management process at an early stage, and to successfully manage their implementation.

Research evidence<sup>4</sup> shows that:

- A majority of workers in both public and private sectors report major organisational changes taking place.

- Employees are not necessarily hostile to change but major changes – particularly leading to redundancies – tend to cause negative attitudes.

- Most people say change in their organisation is badly managed.

- Employee trust in organisations has declined and this can make the process of managing change more difficult.

Breach of the psychological contract can seriously damage the employment relationship. It won't always be possible to avoid breach of the psychological contract but

employees are more likely to be forgiving where managers explain what has gone wrong and how they intend to deal with it. The contract may need to be renegotiated.

#### 6.8. CIPD viewpoint

Public interest in the psychological contract has been stimulated by fears about job insecurity. Survey evidence suggests that, although such fears have been exaggerated, employers should nevertheless be paying more attention to restoring employees' trust in their organisations. This means clarifying what is on offer, meeting commitments or if necessary explaining what has gone wrong, and monitoring employee attitudes on a regular basis.

The psychological contract does not supply a detailed model of employee relations but it offers important clues about how to maintain employee commitment. With the decline in collective bargaining, attention is more clearly focused on relations between the organisation and individual employees. The psychological contract reinforces the need for managers to become more effective at the communications process. Consultation about anticipated changes will help in adjusting expectations and if necessary renegotiating the deal.

The psychological contract provides a convincing rationale for 'soft HRM', or behaving as a good employer. It offers a perspective based on insights from psychology and organisational behaviour rather than economics. It emphasises that employment is a relationship in which the mutual obligations of employer and employees may be imprecise but have nevertheless to be respected. The price of failing to fulfil expectations may be serious damage to the relationship and to the organisation.

#### **References:**

1. CHARTERED INSTITUTE OF PERSONNEL AND DEVELOPMENT. (2005) *Managing change: the role of the psychological contract*. Change agenda. London: CIPD. Available at <http://www.cipd.co.uk/changeagendas>