STRATEGIC REWARDS - A CASE BASED STUDY

Sakshi Gupta[1], Amit Sharma PhD[2]

[1]head (HR), [2]associate professor (economics)
[1]RocSearch, Noida, Delhi Ncr, [2]College of International Business, Zhejiang Yuexiu University of Foreign Languages, China
E-mail: sakshi.gupta@rocsearch.com, amsfga@hotmail.com

Abstract

Talent has won 'The war for talent'. The war is caused by the continuously increasing demand-supply gap for skilled workforce. Consequently, organizations face difficulty in attracting and retaining talent. Talent market is highly dynamic, since new disciplines of knowledge and skills are continuously emerging due to explosive growth of knowledge. It is resulting in rapidly changing technology and preferences and priorities of workforce in the midst of shortages. This necessitates appropriate reward system but in practice very few organizations offer attractive value proposition to their workforce. Most organizations still adhere to the conventional reward system.

The traditional Rewards Management assumes money, and cash components to be the strongest motivator and the best performance incentives for employees. Higher wages/rewards have a close association with efficiency/productivity and employee turnover rates. Neo-classicists postulate equality between wages and the marginal product of labor. Higher-wages help in facing short supply of talent.

Neo-classicists argue that the 'Total Factor Productivity (TFP)/Multi-factor Productivity (MFP)' depends on investment in human capital; education and skills are the drivers of productivity of labor. It implies that the companies, especially service providers, which use manpower as the pivot, should particularly invest in human capital.

This study also considers rewards as the main driver of high performance; so the companies should focus on satisfying the needs of all the employees by balancing extrinsic and intrinsic values; which is based on strategic reward system. Further, the Rewards Strategy, Business Strategy and external environment should be aligned to ensure sustainable results. Outcomes tend to diverge from desired goals if business and rewards strategy are not well aligned. 'Strategic Rewards System' does not emerge in one go it evolves if the above conditions are satisfied.

Therefore, the study traces the historical evolution of 'Strategic Rewards System' by review of literature. This furnishes the rationale for the case study based on a Small Medium Enterprise; it provides evidence for the choice of the "Strategic Rewards System" by the organization under study. The case study assesses the relation of reward strategy with the organizational performance. The study concludes that a well-designed and a well-executed Strategic Rewards System reverses employee turnover and improves performance without a lofty budget.

Keywords: Strategic Rewards, Productivity, Retention, Human-Resource
JEL classification: J24

 10.18531/Studia.Mundi.2016.03.02.145-170

Introduction

Traditionally, emphasis has been on monetary rewards to employees, since the companies have relied on high pay to attract and retain talent. However, pay is not the only important factor, this is borne out by the fact that companies, which pay exorbitant salaries to their employees, do not always have a better Price-Earnings (PE) ratio as compared to their competitors and the employees will not like to leave such companies. Further, Small and Medium Enterprises (SMEs) would never be an attractive employer due to their budgetary constraints. As against the traditional reward system, strategic reward system focuses on job satisfaction. But the job satisfaction crucially depends upon (a) job security; (b) carrier advancement opportunities; (c) package and work environment. Besides, retention also depends upon job satisfaction. Fulfillment of the above condition attracts talent and helps in its retention (Prakash and Bhati, 2007). However, this holds true provided that one does not face employers' market where supply exceeds demand, in that case, employees will hesitate be reluctant to leave their jobs even when they are paid less than their marginal productivity or prevailing market rate in such a market. Experience of 2008-09 supports this when the worldwide economic slow-down prevailed and numerous employees got pink slips. For averting that eventuality, several employees agreed to work on lower wages/salaries to retain their jobs. Job security becomes crucial for the workforce in that state of the market.

Business leaders and HR professionals are well aware of the concept of Total Rewards; in simple terms, it means a portfolio of monetary and non-monetary rewards. An important aspect of the portfolio is the determination of the optimal mix of these two types of rewards. But, most professionals still emphasize cash rewards to engage employees. Cash rewards are a necessary, but not sufficient condition to attract and retain talent; only an optimal mix of monetary and non-monetary rewards can retain and engage the attracted talent and push up the organizational performance. Performance may be measured in several alternative ways. One way is to determine the marginal physical product and its money value in the market to determine the reward to the workforce. But the marginal physical product depends on the rate of returns under which production takes place and the price of the product in the market. If it is assumed that the company produces at its optimal level under constant returns to scale, then, change in output will not alter productivity, and hence, the rewards to the workers. This highlights the importance of the state of the market and the internal conditions of operations of an organization. Therefore, the uniform reward system for all companies and under all circumstances cannot be a universal remedy.

According to the findings of AON Hewitt (AON is a company and a leading global provider of risk management, and human resources solutions) recent survey, all the 750 companies (medium to big) surveyed agreed that Total Rewards is an excellent management tool to improve organizational performance; 'Total Rewards' portfolio absorbs their largest investments. But 60% organizations described their engagement levels as low or converging downwards. This raises the question: if results are so abysmal for organizations with relatively bigger budgets, then can a Total Rewards portfolio ever be an answer for Small and Medium Enterprises (SME's) to determine their business outcomes?

In view of the importance of operational conditions highlighted above, it may be hoped that above stated outcomes are not related to reward system of these companies; it rather reflects the state under which production takes place. This is supported by the fact that some of the progressive organizations successfully embraced the system of Total Rewards and focused on the intangible rewards as an equal, if not more important, way of rewarding employees. The outcomes of their business operations controvert those of 60% companies of the above mentioned survey. For instance, Google implemented the policy that allows employees to bring their pets to work. It is one of their proprietary and unique ways to attract, retain and motivate employees who own pets. The results of Google were not adversely affected by this.

The case study on redesigning of the Rewards System of a medium sized enterprise, XYZ Private Limited (name changed), has been presented to help us to understand non-traditional ways of rewarding employees for maximizing business value within the limitations of costs/budgets.

Case of XYZ Private Ltd.

XYZ Private Limited faces certain constraints, which are adversely impacting the profitability of its business. The consultative board (consisted of external experts/consultants engaged by XYZ for redesigning the rewards system) is working in tandem with the management and the employees of the firm to study the current rewards system, identify gaps, redesign the system and evaluate its effectiveness.

The new rewards system has been designed, keeping in mind the budgetary-constraints of the medium sized enterprise under study. The rewards system largely leverages non-monetary elements of rewards to enhance employee performance and business results within the given budgetary constraints. The system has been in operation and initial findings suggest a successful start and a promising future.

Objectives of the Study

The following are the specific objectives of this case study:
1. To study the business context and existing rewards system for identifying inefficiencies in the reward system;
2. To design a cost-effective total rewards system that helps the organizations overcome current challenges in recruitment and Retention and pushing up the organization's performance;
3. To identify whether the rewards system is effectively aligned with the organizational objectives for sustainable business results

Sources of Data

The data or the information has been collected from the following primary and secondary sources:
1. Seminars/workshops: Workshops conducted by renowned consulting firms that are pioneers in "Total Rewards" have been used for some ideas.
2. Industry experts: We are grateful to Mr. Indranil Gupta, a consultant with a private sector company, for his advisory support in building our understanding about this concept and being the sounding board for brainstorming solutions and ideas whenever he was approached.
3. XYZ Private Limited: It is a real entity, privately owned, medium sized, multi-national company, which is headquartered in Europe with delivery operations in northern India. In this case it is being referred to as XYZ private limited. The data/information presented in the case study is proprietary information of the organization. The data was collected through interviews and reviews of past records of the company.

4. Related reports and articles retrieved from the internet, details of which are included in references.

Case method as our base

Sociologists and anthropologists evolved case method of study and research. Rahul Sanskritayan, S.C. Dube and Elvin Verrier used case method to study numerous tribes of India. In the process Zirba tribe of Andaman and Nicobar Islands was also discovered. The tribe offers a unique case, which is not replicable from any population except the case itself. A non-replicable case is generally considered to be unfit for generalization by common methods of research. Even otherwise the most critical limitation of case method is its amenability to generalize the findings derived from the analysis of all facets, aspects and facts of the case.

Two types of cases are, therefore, distinguished from each other: (i) Such cases which are generic and may easily be replicated from the population from which the given case is drawn. These cases are typical or representative of the population. It may also be treated as an average case in statistical jargon; and (ii) Typical cases, which are unique and non-replicable. Such cases are difficult to be generalized.

It is noteworthy that case method is analytical rather than statistical, so logic is used to derive general inferences from premises. But there are three methods or approaches for generalization: Deduction, Induction and Abduction. Deduction much like method of experiment; involves deduction of testable consequences from hypotheses. Then the findings expected to flow from theory are compared with evidence furnished by experiment or the case. If the premise on which a theory is based, are valid then theory is also true and valid. (Stake 1995; Johansson, 2013)

Induction uses logic or reasoning from common facts of the replicable cases. It is assumed that if the theory is valid for a given case, it will hold true for all cases of this category drawn from the same population. As facts are facts and a part of reality, if theory and its premises are consistent with the facts of the cases, then the theory is validated. But each case of non-replicable category is population by itself. Each trait, which differs from all other traits of the case itself, offers an inference, which may be treated both as the premise of its own theory. Generally, none of the traits of such cases shall be associable with any trait of other replicable and non-replicable cases. Analysis of such cases may be amenable to method of abduction. Abduction treats its own premise as its conclusion/inference. Method of abduction is used if some new but unique facts, say C, is discovered. But researcher trusts that A is true, and hence, it holds in conjunction with C. Thus, if A holds, C will automatically follow as its consequence (Johansson, 2013). The strategy reward may be treated as the new facts of human resource award fixation theory. But, several companies other than XYZ have experimented with strategic reward strategy though some have successfully obtained the benefits while some did not. Therefore, strategic reward system can be treated as some unique fact like C which is associated either with A-success, or B-failure. So, it may be concluded that if A holds, C shall be associated with A as its consequence. This is as if we know the consequence A and we seek to discover C as its cause. But the holding of A true relates to certain conditions to be fulfilled by a company. As strategic reward system is no more confined to one or two companies in business world, it cannot and should not be dismissed as a queer fact of business. Therefore, it may be amenable to both deductive and inductive methods of research. (Prakash, 2007)

Review of Literature and Rationale of the Study

In this section, we present the review of literature and outline the rationale of the study. The first section of review of literature outlines the importance, utility and implications of reward system for human resources. The second section deals with existing literature on 'Total Rewards System'; the last section titled 'Rewards and Performance' traces the literature linking relationship between rewards and performance. The case study in the following sections presents the implementation and results of 'Total Rewards System'.

Rewards; Importance and Utility

In the early stages of Industrialization, worker was treated as a machine in the production line (Gheselli, 1964). But T.W. Schultz made seminal contribution to highlight the role of human capital in growth of the economy and productivity of business. E. F. Denison's estimate highlighted that 42% of growth of Gross Domestic Product (GDP) and 28% of growth of per capita GDP of USA were accounted by investment in human capital during 1905-1956. Prakash estimated that investment in education contributed 3% of total GDP in 1988; which was only 0.74% in 1961 in India. Theoretical and conceptual thrust underlying such findings is that 'Man' is as much capital as equipment and machines. Therefore, the satisfied workers are a necessary condition for improvement of efficiency and performance of businesses. But what is workforce's satisfaction? Just as consumers' satisfaction is the utility or value in use, 'work-force's satisfaction is value in employment'. Just as 'value in use' is distinguished from the 'value in exchange' for consumption, 'value in employment' is distinguished from the 'factor rewards of employees in the market place'. But this concept has got two distinct aspects: value in market place stands for the wages/salaries commanded by workers and paid by employers. But value in employment refers to the job satisfaction of the employees at the place of work. Value in job for the employer may stand for the performance/efficiency of performance of the organization in relation to its business objectives. Thus, value in employment may be related to job satisfaction. Job satisfaction may be defined as value in work or occupation as distinct from the value in job market. 'Value in Job' to the employer is reflected by the wages/salaries paid to the workers. Thus, value in use stands for the satisfaction derived from the consumption of goods and services, while value in exchange stands for the price paid for the goods. So using this analogy, value in job may be defined as the price that one will be ready to pay to get the job rather than be deprived of it. The price in this context may be defined as the alternative jobs that one is willing to forego for the specified job and the expenses involved in waiting and searching the job. Longer the wait for the job and its search, greater will be the value of the job for the employee. From this viewpoint, the expected earnings and the total tenure, which depends on job security, may be expected to be amongst the main determinants of job satisfaction. Next to these parameters, will be the prospect of promotion/career advancement and/or increase in earnings.

Conventional Framework of Analysis

The 'Maslow Hierarchy of Needs' is one of the most commonly used frame-work to understand the order of human needs. The model suggests that the basic needs dominate the thinking until they are met. But once the basic needs are met, one strives to satisfy higher order needs and at times, one generally craves to meet several different needs simultaneously. Humans are the most satisfied when they reach the highest order of need for the self-actualization.

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The understanding of the Needs Hierarchy is vital to design an effective Rewards Strategy. Employers can increase satisfaction of employees if their Rewards Strategy fulfills the basic needs of employees and supports them to move up the order of satisfaction of higher needs. However, companies are too focused on cash rewards and invest significant time and effort in benchmarking company's pay scales with the market. Even if they pay fairly and competitively, employees still leave the organizations. Why? Because they have certain needs that pay alone cannot satisfy.

The diagram (figure 1) depicts the relationship between human needs and different types of rewards.

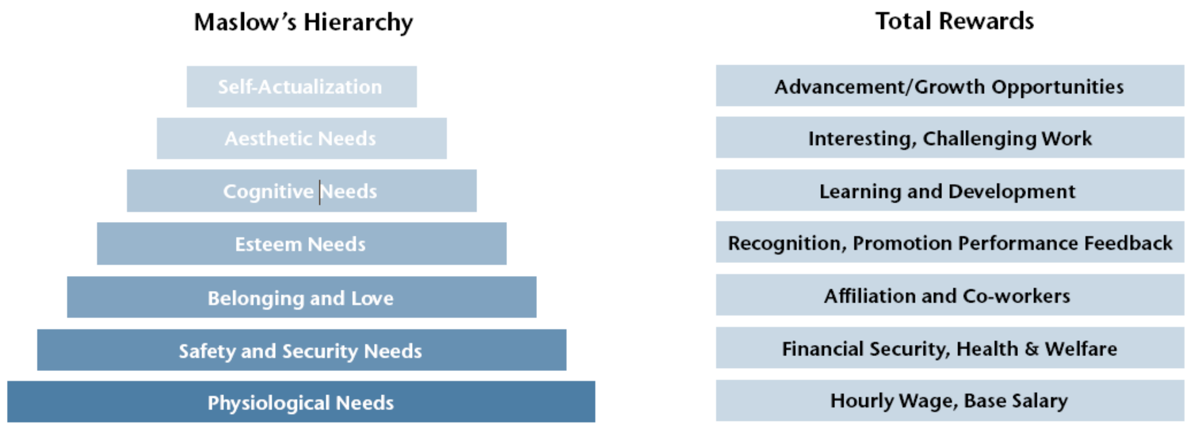

Figure 1: Human Needs and Total Rewards

Source: shuster-zingheim

While extrinsic rewards such as cash and benefits attract talent, intrinsic rewards such as recognition, challenging work, developmental opportunities and work-life balance are essential to retain talent. These two layers may be emphasized as necessary and sufficient conditions for attracting and retaining talent.

Employers can benefit, if at the time of recruitment or thereafter, they understand that there is a direct correlation between employee's employability and performance. If the employer helps the employee improve his/her employability by offering competitive pay and benefits, publicly recognizing his/her contribution, awarding achievement and providing developmental opportunities, then the employee is likely to be more satisfied and more likely to put in the best to deliver high performance.

Total Reward Approach

Total reward approach envisages understanding the relative significance of the various parameters of reward proposition and effective implementation strategy. Armstrong and Stephens (2006) opine that total reward is an aggregate of financial and non-financial benefits, direct and indirect, intrinsic and extrinsic and all facets of rewards, synced together (Manus and Graham, 2002; Armstrong and Stephens, 2006). Maslow's need hierarchy; Two-factor theory, Expectancy theory, Alderfer's ERG theory (ERG stands for Existence, Relatedness and Growth); Adams Equity theory etc. provide the theoretical basis. Chen and Hsieh (2006) in their study highlighted the positive link between rewards strategy, the changing environment, retention of good performers and the performance of the organization. This finding lends support to total reward approach.

Fuehrer, (1994) highlights the linkage between performance of the company and rewards. Total reward strategy is an integrated cost-effective approach to employee's compensation in a predictable manner. It establishes a clear link between their compensation and efforts. This has a deep bearing on productivity.

A USA based global human resources association, 'World at Work' (2007) has defined total rewards as the levers employer can deploy to attract, motivate and retain talented employees. It identifies 5 distinct dimensions i.e. compensation, performance, benefits, work-life, recognition, and career opportunities. It further underscores the influence of regulatory issues, culture and competition on Performance and rewards.

White (2005) emphasized on the necessity of aligning global practices with local suitability, need and culture for successful adoption and execution of rewards programs. Jiang et al. (2009), also emphasized on adapting the total reward strategy to the varied needs of employees' in the organization in order to realize the optimum performance.

Zingheim, & Schuster, (2001, 2007) included much of the same elements included in a study by Fernandes. (1998) that comprised basic salary, long-term disability benefits, variable pay, death-in-service benefits, pension benefits, private medical insurance, vacation entitlement, company car schemes, share schemes, mortgage subsidies etc., and proposed a system of rewards that include individual growth, a promising future, total pay and a positive workplace.

Sarin and Mahajan (2001); Lee and Wong, 2006; Suff and Reilly 2006 delved into the linkage between reward and performance. They attempted to assess the impact (positive or negative financial or non-financial) on performance.

Lyons and Ben-Ora (2002) describe a total reward strategy as one that comprises base salary, variable pay (short/long-term), perquisites, benefits and performance management. They also included in the strategy employee's training, career development, mentoring/coaching and other relevant policies. It envelopes all facets of reward strategy.

Whereas Lakhal and Pasin, (2008) claim performance measurement as a tool to gauge the outcomes of resource utilization and a way of improving the performance of the organization. Financial Performance is led indirectly by non-financial factors through their influence on key business processes such as product quality, and customer relationship management (Hallowell, 1996) and employee-oriented measures (Chi and Gursoy, 2009).

Hughes et al. (2007) discussed the incompleteness and inadequacy of financial ratio's in measuring performance of any small and or medium sized company.

Hashim (2000) pointed out that most organisations regard profitability and various financial ratios as indicators of success and performance (i.e.,PM (profit margin), ROI (return on investment), ROE (return on equity) and ROS (return on sales) etc). However, Jusoh (2009) lamented the excessive focus of companies on the above and suggested the adoption of non-financial measures such as Total Quality Management (TQM), Business Process Reengineering (BPR), and Balanced Scorecard (BS). Total reward system balances the monetary and non monetary aspects of compensation in the best interest of the employees and the company as highlighted by Armstrong (2006), reward practices that improve motivation, commitment, enhance job engagement and promote discretionary behavior lie at the base of the total reward systems.

Reward Structure and Performance

Abbasi and Hollman, (2000); AON Hewitt (2009); and Sherman et al. (1998) attributed high attrition rate of employees in organizations to factors such as hiring practices, inadequacies of compensation system and to a lesser extent to competition. As against this, Bliss (2007) and Sutherland (2004) argue that, when a productive employee leaves an organization, it leads to loss in productivity, loss of social capital and loss of customers. The departing employee also takes away from the organization the knowledge, skills and network of contacts. Usually it ends up being a gain for some competing organization.

Ram Lal (2003) projected that the cost of employee turnover is 150% of the employee's annual salary. This cost becomes even higher for more experienced or higher ranking employee and if employee attrition is large.

Kinner and Sutherland, (2000); and Maetrtz and Griffith (2004) have conducted an empirical study of key motivation variables that influence employees' retention; these are competitive salary, good working relationships and job security. Samuel and Chipunza, (2009) postulated that 'Reward and Recognition' play a significant role in employees' retention in private sector companies.

Various other studies have shown positive influence of holistic reward systems on performance.

Gomez-Mejia and Balkin (1992); Armstrong (2000) have underscored the importance of reward strategy as a deliberate, critical, assimilating, synergizing means through which various units and resources are led towards the organizations strategic goals and objectives.

The influence of rewards system goes deep and far with in the company; Lee and Wong (2006) underlined the role of rewards in encouraging innovation in companies. Suff and Reilly 2006 said that a reward strategy is likely to have a long term influence on the future performance of the company.

Sarin and Mahajan (2001) studied the impact of rewards system on team performance. The performance parameters that are affected in varying degrees by reward structure, contradict existing models in use and theories. Thus, advocating a holistic approach a non-rigid, flexible approach in-tune with current lifestyles and requirements of the new generation.

Hay Group – 'a global management consulting company' in 2011 in their study of the global recession and other global macroeconomic trends found the raison-d'être for changing the current reward strategies.

Wood and Menezes, (2010) study highlighted, financial sector's adoption of long-term incentive schemes and changes in the 'payment-mix' with focus on well-balanced, risk-adjusted-performance-measurement and bonus payments over a period of time. As pointed out by San, et al (2012), for firms to accept, adopt and implement the total rewards strategy, its linkage with financial performance and critical growth indicators of the firms must be established objectively and unambiguously.

Designing New Rewards System

The findings of past studies and their own experience have been used to design a new reward system for XYZ Private Ltd. Company. Movement from old or current to new system involves looking critically at the evolution of the system in vogue. This is attempted in the following paragraphs.

The concept of 'Total Remuneration' has evolved into 'Total Rewards' over the years. In the pre-globalization era, people generally dedicated their careers to a single organization. The organization reciprocated this favor by providing growth opportunities to employees on the basis of their tenure and entitlement. People received salary adjustments year on year for sticking around and it mattered less that these individuals were up-skilling themselves. Generating value for business was an expectation only for senior employees.

Post-Globalization, the Indian economy expanded; many Multinational Corporations (MNCs) established their cost cutting centers in India and concepts of outsourcing, flattening, downsizing and de-layering evolved. This era brought with it fierce competition, propelled people to learn new skills at their own expense and compete for selected high paying dream jobs. The primary focus of these organizations was, achieving better business results; hence, they de-prioritized intangible elements such as work-life balance, emotional health and positive environment. While rewards became more performance-centric, stress levels at workplace also spiked as a consequence of this.

Services sector companies in particular understand 'Employees' can make or break an organization and a win-win deal is the best where both the organization and employees are the winners. If company invests in the employee, then the employee returns the investment through enhanced performance i.e. greater value for the company. This deal is balanced, mutually beneficial and has given birth to a rewards system that provides sustainable growth to both the parties.

The diagram (Figure 2) depicts an increased focus on a "win-win" mentality which is supported by the concept of total rewards.

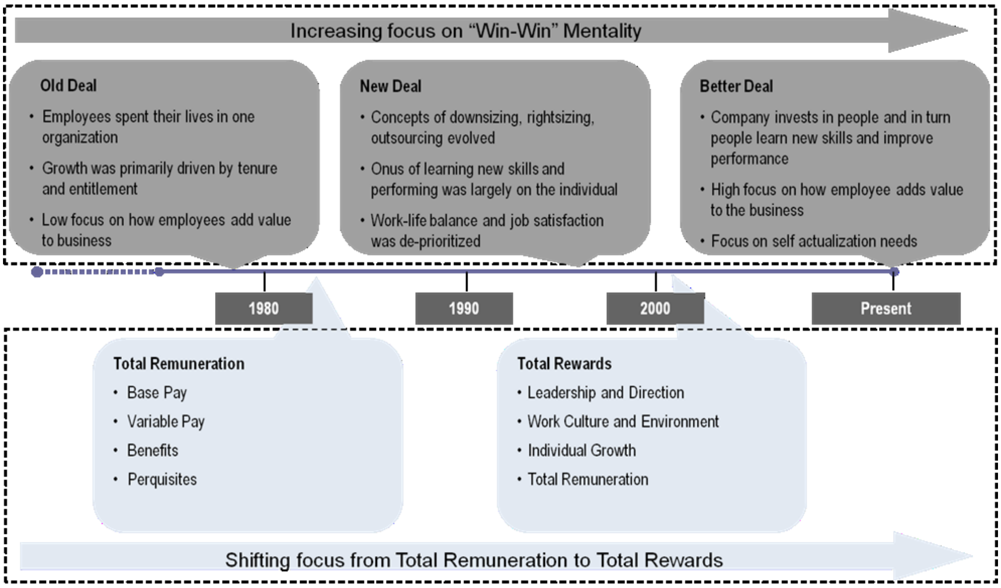

Figure 2: Total Remuneration to Total Rewards

Source: Shuster-Zingheim

Total Rewards Components

The concept of total rewards makes use of the inter-connectedness of employee's motivation, organizational goals, performance and profitability. It makes use of the tangible and intangible rewards to reap greater business results. The chart (figure 3) sheds light on the wide range of rewards that can make up a total rewards program.

Reward Categories	Reward Elements	Key Sub Elements
Non-Monetary Rewards	Intangibles (Typically Intrinsically Valued)	▪ Work Culture and Climate ▪ Leadership and Direction ▪ Internal Value or Motivations ▪ Career and Growth Opportunities Work-Life Balance ▪ Job Enablement ▪ Recognition
Non-Cash Benefits and Perquisites	Perquisites	▪ Cars ▪ Houses ▪ Clubs
	Benefits	▪ Retirement ▪ Health and Welfare ▪ Time Off with Pay ▪ Statutory Programs ▪ Income Replacements
Monetary Rewards/Compensation	Long Term Incentives	▪ Stock and Equity ▪ Performance Shares
	Short Term Variables	▪ Annual Incentives ▪ Bonus and Spot Awards
	Guaranteed Cash	▪ Base Salary ▪ Hourly Wage

Figure 3: Total Rewards Components

Source: Shuster-Zingheim

Monetary rewards are paid in cash and are one of the most traditional elements of total rewards; cash rewards are still a necessity for the success of business. The nature of these rewards can be fixed or variable. Additionally, the variable pay can be long term or short term in nature, depending upon the organizational lifecycle and rewards strategy. The following are important elements:

a. Guaranteed Cash: This refers to the fixed salary or wages paid to employees for performing the job. This also includes deferred payments that are disbursed on quarterly or half yearly basis and eventually become a part of the fixed cost of employees to the company.

b. Short Term Incentives: These incentives are generally performance based and are paid on the basis of attainment of desired goals. These benefits are a part of the variable cost of the company.

c. Long Term Incentives: These incentives are designed to propel organizational results through employees' long term performance. These incentives are also variable in nature.

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‘Non-Cash Tangible Rewards’ are aimed to protect employees and their families from financial risk, and offer a better standard of living. These rewards form a part of employees’ total cost to the company.

‘Non-Monetary Rewards’ are a form of psychic income earned in recognition of superior performance on the job or contribution to the organization. These rewards are intangible and difficult to measure; hence, these rewards are not accounted for in the total cost of employees to the company.

Strategic Rewards System

For understanding strategic reward system, it is necessary to understand ’Rewards Strategy’. Strategy is a plan of action or a set of tactics to achieve a long term goal or objectives. Tactics are used for short term gains. In the context of business, the purpose of a Rewards Strategy is to contribute to organizational profitability through collective performance of the human capital and the organization. A good Rewards Strategy is characterized by flexibility and adaptability to the changing circumstances. Few examples are as follows:

- “Top 10% persons perform higher than the market, next 40% are in line with market and last 50% are below the market. Incremental bonus is meant for contributing to the top/ bottom line of the company.”
- “Top 10% performers to be rewarded 130% more than the bottom 50%”. (Shuster-Zingheim. (2001)

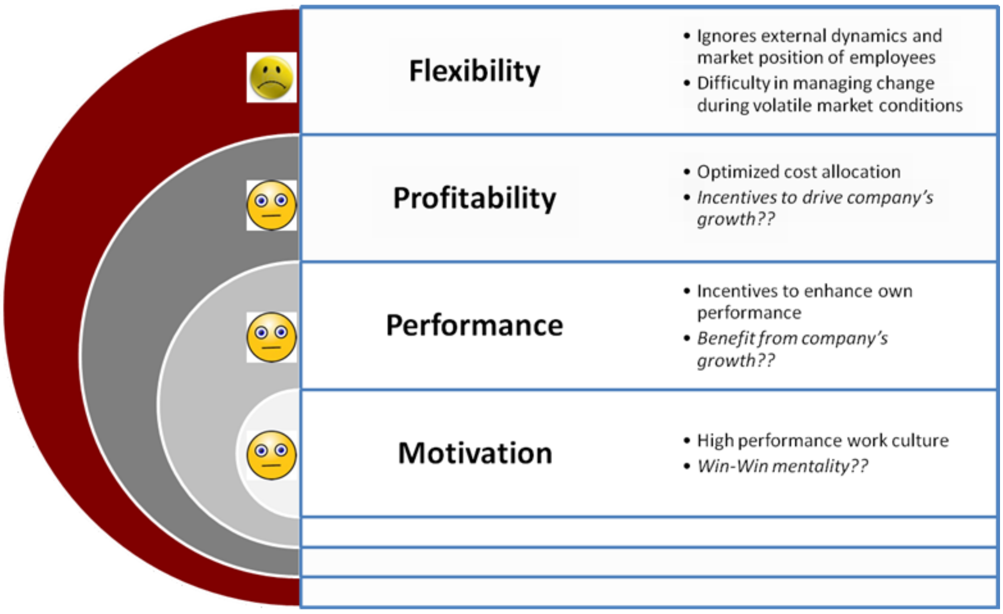

Figure 4: Rewards for categories

Source: AON, Meritt Qwest HR Services

The first Rewards Strategy impacts all the four key areas, (Figure 4) while the second partially impacts three areas and completely ignores flexibility. Hence, the first strategy is better than the second one. ’Rewards Strategy’ evolves into a ’Strategic Rewards System’ when it is aligned with the ‘Business Strategy’ of the organization. For instance, an organization, which follows an ’Innovator’s Business Strategy’ will be able to sustain its competitive edge only if its Rewards System incentivizes employees to drive upwards the revenue through innovation.

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But a company, which follows the 'Defender Strategy', will be able to retain its market position only if its Rewards System incentivizes employees to optimize cost through improvement of the process. Therefore, there is no 'One Size Fits All' rewards strategy that can help all organizations to achieve positive business results. While there can be common rewards elements, Rewards System is contingent on the business strategy of the firm; hence, it has to be customized accordingly.

Case Study of Strategic Rewards System in a Medium-sized Enterprise (categorized under small and medium enterprise in India)

Company: XYZ Private Limited. It is a real entity, privately owned multi-national company, which is headquartered in Europe with Delivery operations in Northern India. In this case it is being referred to as XYZ private limited.

Service Offerings: The company is a provider of outsourcing services to companies in the Europe and America. The target industries include banking, healthcare, retail, telecom and technology.

Delivery Model: The company has 'Full Time Engagement' contracts with clients under which resources/teams are dedicated to one client for a period of minimum one year.

Organization Structure: The company has a well-defined hierarchy for the operations and functional support teams. While operational teams (dedicated client teams) consist of 3-4 members, functional teams consist of 1-2 members. Operational teams operate independently of each other, which has resulted in creation of silos and tight boundaries around movement of resources.

Workforce Characteristics: The workforce comprises young graduates and post graduates from good academic pedigree. These individuals are highly ambitious and are at an early stage of their career.

Strategic Objectives

- Expertise in niche sectors: The company offers services in niche sectors, which is one of the differentiating factors over competitors. The company wants to retain this edge and establish itself as the 'Go-To' (first choice) service provider for clients in niche areas.
- To be 'Business Partner of Choice': The company emphasizes on forging long term relationships with all its clients. For this, it wants to create a culture where employees become thinking partners of the client and have an ever-ready client servicing mindset.
- To be 'Employer of Choice': The company wants to position itself as the 'Employer of Choice' and be known for the superior experience it provides to its employees through challenging work, competitive pay, work-life balance and development opportunities.
- Collective growth through “Win-Win” deal: The company has a vision to create greater business value by developing employees through their work. It wants the business and employees to prosper together.

Organizational Constraints: The company size is much smaller as compared to its competitors because of which budgetary constraints are more pronounced and there is an inclination towards cost cutting. These constraints have created the following management challenges:

- Limited opportunities: It is difficult to show a stimulating career path to all employees who aspire to hone their managerial skills. Due to small team size, most employees have to operate as individual contributors even if they are promoted to managerial levels.
- High Expectations: Employees are expected to be 'Jack of All Trades' because the company has not matured in scale and the structure is not completely formalized. Employees have to operate in an ad-hoc manner which results in loss of focus and stress at times. The opportunity for super specialization by engagement in one single line of operation over a long period of time.
- Talent Management: It is challenging to retain top talent over a period of time because they become costly and are actively sought after by bigger brands. Similarly, it is difficult to attract talent from better known brands.

Organization Lifecycle: The company is pursuing stimulating business development opportunities and has recently added a new service offering to their portfolio. It has been operating in the industry for over 5 years and has a stable revenue pipeline. Its scale of operations has high scope for expansion. During the infancy phase, the company paid high fixed salaries to attract the best talent from the industry. Though, in the last 5 years, its fixed pay positioning has declined. But it has formulated a competitive benefits plan for its employees and offers short term incentives such as the annual performance bonus and cash allowances.
The chart (figure 5) captures the current positioning of XYZ Private Limited on the organizational lifecycle and the linkage of rewards strategy with different phases:

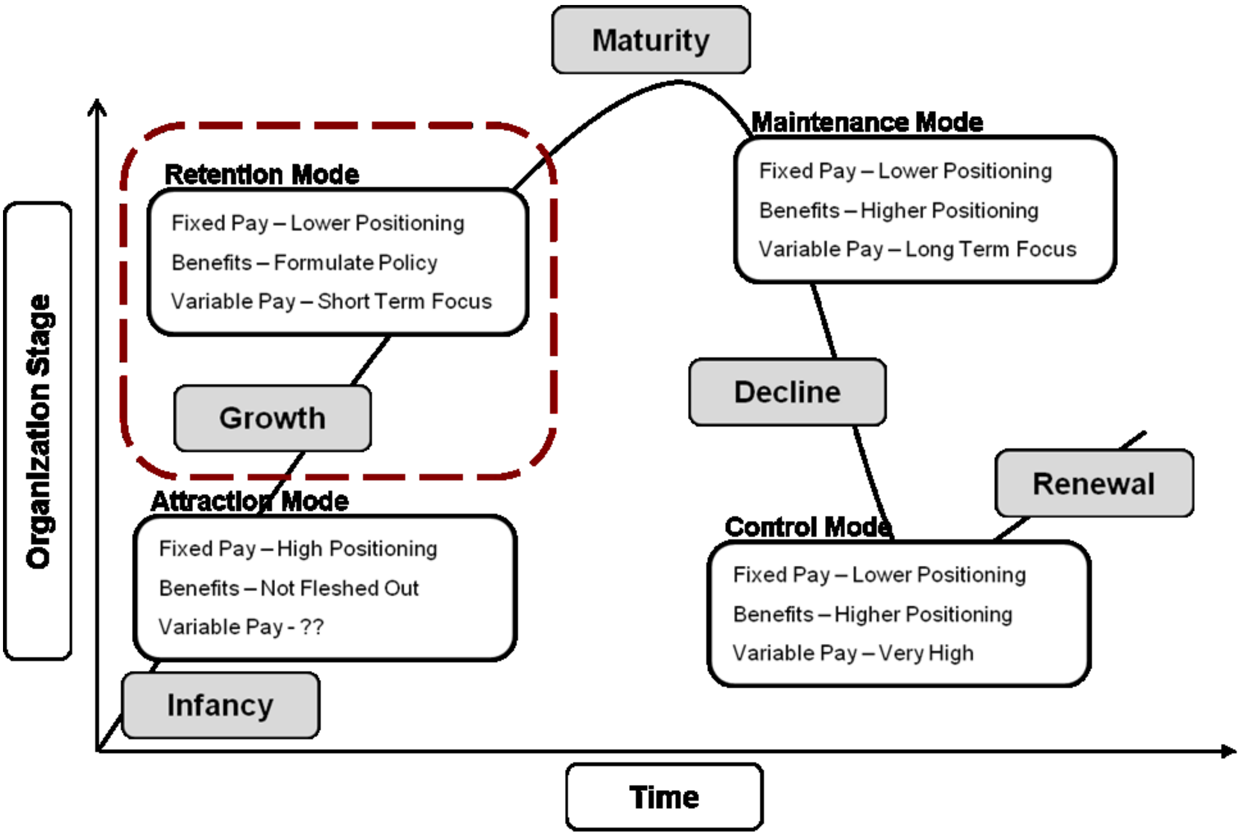

Figure 5: Organizational Lifecycle and Rewards Strategy
Source: shuster-zingheim

Rewards System at XYZ Private Limited

The rewards system comprises variety of components. Following are the components of the rewards system

Tangible Rewards

Fixed Salary: The company offers competitive pay to attract talent. However, the annual appraisal figures (increments in salary) are not as competitive and are generally awarded as i.e. 10% (low performer), 15% (average performer), 20% (high performer) of the fixed salary that differentiates between the low, average and high performers. The salary hike is solely determined on the basis of scores obtained by the employee in his/her performance appraisal.

Annual Bonus: The annual bonus is paid as a percentage of the fixed salary. Just like the salary hike figures, annual bonus pay-out numbers are less competitive and are based on the performance of the employee.

Deferred Payment: This payment is guaranteed cash which is paid over a period on quarterly or half yearly basis. This amount becomes a part of the fixed salary of the employee' post disbursal.

All employees are covered under a health insurance policy, the premium of which is paid by the company. The health insurance coverage increases as an employee reaches senior management level.

All employees receive transportation facilities and gifts on special occasions.

Intangible Rewards

Refresher training and induction programs are conducted on need basis and are focused on imparting essential on-the-job skills.

All employees are offered flexible work timings and paid time-off.

Celebrations and recognition programs are held but their frequency is irregular.

Work culture is easy going and employees are fond of their colleagues.

The practices around performance management and career development are unstructured.

Delivery of Rewards

The company has a flexible pay program which offers leverage to employees for planning and taking their pay in the desired manner depending upon their lifestyle and requirements. This plan consists of a fixed basket (basic pay, special allowance etc.) which is mandatory and a flexible basket (allowances and reimbursements) which is optional in nature. The flexible basket components provide tax saving and tax planning benefits.

Limitations of the Rewards System

High Dependency on Cash Payments

- The company primarily relies on increasing the fixed salary or offering deferred payment to reward employees. Both the reward elements are cash payments which increase the fixed cost of the company with every passing financial year.
- Cash as the primary reward component has set unreasonable expectations in the minds of employees and has disturbed the internal salary equity.
- The culture of the firm has also been negatively impacted because employees freely indulge in negotiating for various salary components.

Focus on 'Role', Skill and Collective Performance ignored

- The salary hike and bonus pay-out incentives provided to employees focus only on their on-the-job performance. There are no incentives for employees to take initiatives for off the job performance that have organization wide ramifications.
- There is no provision for rewarding rare and critical skills, which results in the inability to sustain these skills and creates a constant fear of losing talent to competitors.
- There are no differential rewards for employees who contribute to organizational growth by impacting the top or bottom lines.

Missing Market View

- The company does not benchmark their pay scale with that of the industry. As a result, the salary bands are outdated which ultimately negatively affect both recruitment and attrition rates.
- There is no data on how an employee is positioned in the job-market which ultimately results in inconsistent salary correction and salary appraisals.

Under-utilization of intangible rewards

- Employees are generally not able to avail their paid vacations and participate in organization-wide events because of heavy workload.
- Employees exit the organization on grounds of lack of training and career development opportunities.
- Employees feel that recognition is given on an ad-hoc and infrequent basis.

These limitations have resulted in the following outcomes:

- Difficulty in attracting new talent and retaining existing employees;
- Low employee satisfaction and high turnover;
- Inability to sustain high performance over the years;
- Difficulty in generating more value for business.

The New Total Rewards System in XYZ Company

It is quite evident that the current (older) rewards system has failed to help the company achieve its strategic objectives and there is a clear need to redesign the rewards system in alignment with the business strategy.

The company constituted a consultative board comprising external experts/consultants for redesigning the rewards system. The board was entrusted with the task of preparing the road map and implementing the redesigned reward system in the company. The consultative board ("we") studied the best practices of implementing a rewards system to ensure success of the redesigned rewards system. AON Hewitt reports that over 60% companies fail to reap benefits of a total rewards system because their execution is weak. To be more specific, these companies do not establish a clear link between the rewards system and business strategy and do not have an effective evaluation metrics to measure Return on Investment (ROI) of the system and do not listen to the voices of employees and leadership.

A step by step approach to re-design and implement the new rewards system was adopted on the basis of the above findings. An execution plan, which divided execution of the new system into six phases, was prepared. The execution plan had the following steps:

Articulating Rewards Strategy and Goals

As a first step, the board in collaboration with the management team laid out a clear and concise definition and road map of the new rewards strategy. Total rewards were established as an area of focus with clear goals of the program. Following objectives were identified for the new rewards system:

a. Creating a high performance work culture;
b. Promoting subject matter expertise in niche areas;
c. Building an attractive employee value proposition;
d. Facilitating collective growth; win-win deal; and
e. Building a value-driven corporate work culture.

Collection of inputs to design new Rewards System

Multiple stakeholders were involved to solicit their views on the proposed elements of new rewards system such as business leaders, HR team members and employees to understand which components will support the organization’s strategy in the best possible way. In addition, market study to assess its competitiveness with competitors was done and estimates of costs of implementing the new system were obtained.

Designing the New Total Rewards System

The new rewards system contains new elements of monetary rewards and heavily leverages on non-monetary rewards. A brief overview of the system is as follows:

Tangible Rewards

A modified pay component was introduced. The new system differentiates ‘Pay for Role’, ‘Pay for Performance’ and ‘Pay for Skills’. The objective was to generate options for rewarding employees without unduly increasing fixed costs, spread the financial burden and motivate employees to maintain high performance throughout the year. All three components fall under cash payments, however, their impact differs due to difference in periodicity of pay and nature of cost.

‘Pay for Job’ impacts the fixed pay while ‘Pay for Performance’ impacts the variable pay. ‘Pay for Skills’ is more like an allowance that is paid out on a quarterly or half yearly basis and is also variable in nature. These components are further explained below:

a. Pay for Job: This refers to the salary paid to an employee to perform the job for which s/he is hired. This also includes benefits and perquisites.

b. Pay for Performance: In the new system, the performance appraisal metrics was revised based on pay data collected from the market that reviews salary by considering the performance and market position of the employee.
c. Performance Metrics: Earlier, the 'on-the-job performance' was appraised only on the basis of pay scale levels that spelt out desired performance benchmarks. As the focus was only on on-the-job performance, hence the appraisal system failed to create a culture that was in sync with the values of the firm. To correct this facet, behavioral parameters were introduced that were derived from the company's corporate values. The matrix (Table 1) depicts the revised appraisal parameters.

The new performance metrics facilitated creation of a harmonious environment enabling employees to strive towards desired performance and job-related behavior.

Table 1: Performance Metrics-Pay for Role

Performance Metrics- Pay for Role- Impact on Fixed Salary					
Behavioral Parameters	Exceeds Requirements	Marginal	Solid	Outstanding	Outstanding
	Displays Consistently	Marginal	Solid	Top	Outstanding
	Displays Sometimes	Marginal	Solid	Top	Top
	Needs Improvement	Low	Marginal	Solid	Solid
		Needs Improvement	Meets Expectations	Exceeds Expectations	Consistently Exceeds Expectations
		Performance Parameters			

Source: shuster-zingheim

Compensation Benchmarking: The company started conducting compensation benchmarking study by participating in surveys to remain on top of the emerging market trends and assess employees' position in the market. By participating in compensation surveys run by HR consultancies, the company received complimentary survey reports, which were useful in compensation benchmarking.

Salary Review Metrics: The performance and compensation benchmarking data was used in the salary review metrics. This helped the company to not only reward employees for their good performance but also in aligning their salaries with the prevalent standard in the market.

In Table 2, X stands for the salary hike ascertained for low performers as well as marginal performers who are above or at par with the industry pay standard. This is typically 0%. Y% is the multiple basis, which we calculate salary hikes for the remaining categories. For instance, if Y is 3%, then the hike for an outstanding performer who is 60% or below the market standard will be 30%. Y is derived from the industry compensation benchmarking data. The salary review metrics in (Table 2) depicts the linkage between internal and external dynamics in the new system. There were few exceptional cases which required further adjustments. For example, the revised salary of an employee, who is identified for promotion or level change within a job grade, might still be lower than the market standard.

Table 2: Salary Review Metrics-Pay for Role

Salary Review Metrics- Determination in Increment					
Performance Rating	60% or Below the Market	61-80% of the Market	81-100% of the Market	101-120% of the Market	Above 120% of the Market
Outstanding	10Y%	9Y%	8Y%	7Y%	6Y%
Top	8Y%	6Y%	5Y%	4Y%	3Y%
Solid	5Y%	4Y%	3Y%	2Y%	Y%
Marginal	3Y%	2Y%	Y%	x%	x%
Low	x%	x%	x%	x%	x%

Source: shuster-zingheim

To resolve this issue, we have put in place a provision for 'Promotion and Level Change Adjustment'. The promotion and level adjustment metrics in (Table 3) is a representative example of this solution.

Table 3: Promotion and Level Change Adjustment Metrics-Pay for Role

Promotion and Level Change Adjustment Metrics								
Current Job Title	Current Level	Revised Salary after Increment in INR P.A.	New Job Title	New Level	New Market Entry Salary in INR P.A.	New Market Exit Salary in INR P.A.	New Salary after Adjustment in INR P.A.	New Position to Market
B	2	10,00,000	B	3	10,30,000	11,70,000	10,30,000	10% above the market mean salary
A	3	7,20,000	B	1	7,50,000	9,00,000	7,50,000	25% below the market mean salary

Note: Figures are in Indian Rupees (INR) & unit of measurement is in lakhs (i.e.,1 lakh=100,000, and 10,00,000 (10 lakhs)= 1 million, and 1USD=68.07 INR as on date, approximately) and INR 1 million=USD 14691.80 approximately

Source: XYZ private limited

The company already has multiple levels within a job grade because employees differ in their level of proficiency and work experience in the same job. In the new system, the company has acknowledged this difference by positioning mature employees above the market and fresh employees below the market. It may be observed that at the same job title "B", salaries have been differentiated by the salary spread of 35%. However, this runs counter to current trend of reducing scales or introducing running scales. Such minute differentiation is based on the objective of differentially rewarding experience and expertise. Special awards or advance increments are designed for 'in the given grade' to serve the purpose.

'Pay for Performance' refers to the annual bonus paid to employees for driving individual and organizational growth. This is calculated as a percentage of fixed salary. This differs from the earlier practice which ascertained annual bonus of employees on the basis of their on-the-job performance and did not consider performance of the company. In theory, sums of individual performances determine the overall performance of the company. This is used in above change, to enforce a win-win system; individual performance is now directly linked to company's performance.

In addition, the company identified clients' feedback as one of the parameters to determine annual bonus of employees to cultivate client servicing mindset. To this end the company has a 360-degree feedback system in place to solicit feedback from external clients. The system of feedback collection was revised for uniformity and to capture the feedback of the support functions, whose clients are internal (as this was a missing link). The new matrix is displayed in (Table 4). In Table 4 'X' shows multiples to differentiate contribution of employees to the organization. For instance, assuming X is 8% then an employee who has made a 'Significant' contribution but has received a 'Needs Improvement' rating from the client will get an 8% of the fixed CTC as bonus whereas an employee who has made an 'Exceptional' contribution and received an 'Exceeds Expectations' rating will get 24% of the fixed CTC as bonus. X is derived by dividing the maximum bonus percentage by 3.

Table 4: Pay for Performance

Annual Bonus Metrics			
Significant (A-B%)	X%	1.5X%	2X%
Very Good (B-C%)	1.5X%	2X%	2.5X%
Exceptional (C-D%)	2X%	2.5X%	3X%
	Needs Improvement	Meets Expectations	Exceeds Expectations

Impact on Top/Bottom Line

Client/Employee Satisfaction

Source: shuster-zingheim

'Pay for Skills' refers to the allowances paid to employees for developing and increasing proficiency based on skills that not only enhance the employability of the employee but also benefits the organization.

The 'Hot Skill Premium' program to reward employees for developing skills and knowledge in niche areas is being developed. The recruitment and attrition data are used to determine the eligibility criteria. The amount for this allowance will be obtained from the study of the requirement of the skill for the company, industry practice, and feasibility of being compensated by the client.

It is planned to set up 'Proficiency Level Metrics' to motivate employees for continually upgrading and honing their premium skills. This provision will help the company to optimize rewards budget because these allowances are temporary and variable in nature and do not get added in the total fixed cost. The hot skills metrics (Table 5) lays out the different levels of skill proficiency and rewards.

Table 5: Hot Skill Proficiency Level Metrics

Hot Skill Proficiency Level Metrics		
Skill Proficiency Level	Suggested Definitions of Terminologies	Payout % Amount
High	Expert/Specialist	125% of "X"
Medium	Experienced/Mature	100% of "X"
Low	Entry/Beginner	75% of "X"

Source: shuster-zingheim

A system of mid-term cash incentives was introduced to encourage sustained high performance and growth over a period of time. In this system, high performing employees are offered an additional incentive which is paid to them if they maintain their performance at a certain level over a period of time, which is usually longer than a year. The incentive is paid in the form of an allowance on quarterly or half yearly basis. This practice is expected to help the company to arrest attrition of critical and high performing resources.

Intangibles

Role Enlargement: Organizational structure has been redesigned to facilitate movement of resources across teams and enhance collaboration at organization wide. A broad vertical is established; each vertical comprises multiple operational teams. Through this model, employees are able to move into any of the teams that fall under a vertical and get exposed to a variety of new assignments.

In addition, under the new model, an employee irrespective of his/her designation, can shoulder a horizontal responsibility which spans across the organization. For instance, a senior executive is not entrusted with the responsibility of 'people management'. If, however; he is chosen to lead the 'Corporate Social Responsibility Team', then he gets exposure to this managerial responsibility to additionally or exclusively. This initiative has been helpful in driving employees out of silos and enhancing their role through greater visibility and increased contribution to performance. It also helps employees acquire new skills.

Individual-Development-Plan (IDP) has been launched to provide an official forum to employees for expressing their career aspirations and receive management support to translate them into reality. Planning and execution of career advancement has been identified as a factor of job satisfaction (Bhati, 2007).

The IDP initiative has been instrumental in enhancing mentor-mentee relationships as both take a collaborative approach to finalize the IDP, work on the action plan and achieving the targets. This has enhanced the flow of communication and created a culture of developing people through their work. This develops the feeling in employees that the company cares for them.

Better awareness about the performance and career aspirations of employees has facilitated investment in select training and development interventions that help employees progress in a direction that is mutually beneficially. This has led to an increase in focus on training and development (T&D). Unlike big brands, which have handsome T&D budgets and luxury to engage external trainers, XYZ Company is focusing on grooming in-house trainers. There are certain areas where the company needs help of external specialists; hence, key employees have been nominated to gain the required expertise under the coaching of these experts with the hope that they will transfer the knowledge to others within the organization.

The company has been striving to establish greater interaction with all the employees to deepen relations between the employees and the company. The HR team has started conducting one-on-one direct interactions with employees to gauge their points of pain and delights. If there is any information that has a bearing on other stakeholders, that is employee not receiving timely and constructive feedback from his/her manager, then the HR team quickly collaborates with the stakeholder and employee to take corrective steps. This practice is serving as a bridge between the management and employees through increased and regular communication. This is resulting in higher employee satisfaction through instant grievance handling and symmetry of information.

Power of Recognition is an important tool for motivation. The company has set up a discretionary rewards pool to facilitate instant recognition of activities or behaviors that are cohesive with the 'Win-Win' mentality. These rewards are given on the discretion of the management and consist of both tangible (gift vouchers, movie tickets, branded merchandise etc.) and intangible (appreciation mails, job enhancement etc.) rewards that do not hamper the budget of the firm. Incidentally, the intangible rewards were extensively used for long in USSR. This practice has been helpful in motivating employees to make better use of their talent, time and efforts. There has been increased contribution from employees in organization wide activities, and it has resulted in the drive among the employees to attain academic and professional excellence, and higher utilization during lean period.

Striking the right 'Work-Life-Balance' has acquired relatively greater importance in large cities than in smaller cities. The company has become more conscious of the overall well-being of the employees. For this purpose, it has subscribed to the periodicals that highlight the importance of physical, mental and emotional well-being. These periodicals and mailers also include findings from recent studies and tips on maintaining health at all levels. The leave policy has been revised to encourage employees to take time-off to be with family, without increasing the number of paid leaves. Vacation calendars that help team members to plan periodic time-offs, has been developed. The calendar is finalized by the employees, management and clients together. This practice has helped employees to utilize their paid vacations in a healthy way without disrupting the operations of the company.

Delivery of Rewards

The flexible pay program has been retained but revisions have been made in the flexible basket to reap greater tax saving and tax planning benefits to the employees. As an example, uniform allowance, which will result in tax saving of Indian rupees (INR) 3,600 – 18,000 per annum ($53USD-$265USD per annum, approximately), depending upon the salary bracket, has been introduced.

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Some guidelines to ensure that the execution of the new rewards system remains transparent and consistent were also formulated. The following guidelines in consultation with the senior management team, employee representatives and HR team have evolved:

- Eligibility criteria for receiving salary increment;
- For those, not eligible for salary increment, inflation adjustment on Pro-rated or annualized basis is provided;
- Eligibility norms for promotions and level changes;
- Eligibility norms for additional hikes for promotion and level change cases;
- Eligibility norms for mid-term salary correction;
- Payout metrics for bonus and incentives;
- Eligibility criteria for receiving hot skills/retention allowances;
- Changes in the norms of recognition programs; and
- The periodicity of salary revisions and bonus pay-outs.

Implementing the Rewards System

The XYZ Company implemented the system in a phased manner to help the company and employees, to adapt to this change comfortably. One of the most important stages in successful implementation of this system was the way it was communicated and understood by the employees. The company's focus was on transforming the way rewards are communicated. It was pointed out that business results drive wages/salaries and that salary hike is an employee's return on investment to the firm instead of just a periodic adjustment. To ensure that the communication is comprehended well by employees, the HR and management team collectively conducted workshops for the entire workforce in smaller groups. These workshops have now become an open forum to deal with employees' queries and gauge their pulse; it is a critical feedback system. The agenda of these workshops is also to subtly let employees know how their performance and behavior translate into total rewards.

Evaluating Effectiveness of Rewards System

Generally, organizations define their success in terms of reduction in cost. XYZ Company has a different take on the issue. According to XYZ, when total rewards are managed as a portfolio, they can generate higher perceived value and lower costs. With this thinking, it has identified the following parameters to measure return on investment of the new system:

- Attainment of strategic objectives;
- Cost implications;
- Employee engagement;
- Client satisfaction;
- Employee satisfaction with the program;
- Employer branding; and
- Talent acquisition.

It may be noted that this is only a representative list and may differ from the company's actual evaluation metrics.

Conclusions and Recommendations

The results of the new strategic rewards system that were implemented by XYZ private limited are briefly discussed below.

- Lowest employee turnover in the last 3 years has been observed. It is measured against Quarter 3(Q3)of 2010-2012; 0% attrition at non-critical levels has been observed. Lowering of the attrition rate by 50% has been achieved.
- Reduction in fixed cost of the company by 30% and the overall rewards budget remains under acceptable cost limits.
- Increase in focus on total rewards and awareness about the internal and external dynamics of the company's rewards system, across management has occurred.
- Increase in awareness about corporate values in employees and conscious efforts towards internalizing them has been evolved.
- Higher level of positivity in the environment and increased level of contribution at work.
- Greater transparency in communication and free exchange of knowledge & training sessions.

Suggestions

- Only an evolved Rewards System that satisfies the need hierarchy of employees can fulfill the requirements of a young and modern work force, especially in India. The traditional system of increasing fixed pay to retain talent ultimately becomes inflexible and fails to drive business results. A Rewards System sustains results only when it is aligned with the business strategy and has flexibility to move with the external environment and allows differential investments in human capital to maximize ROI.
- Contrary to popular perception, an effective Rewards System can be created without demanding a bigger budget, if it is designed keeping in mind the voice of stakeholders, aligned with the strategic objectives of the firm and measured by a holistic evaluation metrics.
- There is no 'One Size Fits All' rewards strategy; hence, it is important to study the external environment, market trends, competitive landscape, industry outlook, and internal environment, strategic objectives, business overview, engagement model, and workforce characteristics before designing the rewards system for an organization.
- A well-designed Rewards System is not sufficient to drive business results, if it is not executed and communicated well. Therefore, it is imperative to lay as much emphasis on execution and communication as that on the system itself.
- The benefits of an effective strategic Rewards System go beyond cost optimization; it creates an attractive value proposition for internal and external stakeholders to belong to the firm and contribute to its growth.
- The new rewards system, implemented in the XYZ Company resulted in significant gains in terms of employee engagement. This initiative firmly established a performance driven culture within the organization that led to higher employee satisfaction and incentivized high performing employees to remain loyal to the firm. This resulted in a 50% reduction in voluntary attrition rate, with 0% attrition at critical levels in the first year of implementation. In successive years, the company has been able to maintain an attrition rate of 15-20%, which is below the industry average of 30%.
- Besides, linkage of employee's performance to the company's performance through the bonus component and substantial reduction in fixed salary costs helped the company improve its profitability. The company's operating profits grew at a CAGR (Compound annual growth rate) of 10% over the next 3 years.

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