Part 5  Rewards

Case Studies

These cases are drawn from practice, and are illustrative of the range of topics which are the everyday work of both specialists and line managers who deal with HR issues. They cover some of the topics where reward management shades into other areas, such as talent management, succession planning, recognition and total rewards.

After a brief description of the case there is a commentary. These mini-cases can be used to test understanding and the application of concepts covered in the textbook, and as examples of the different facets to rewards, showing how the ideas behind reward decisions impinge on other areas of HR Management.

1 Sourcing and total rewards.

The case

You work in a fast moving consumer goods company. You need someone to work in marketing who possesses creative zeal, they should be capable of designing marketing campaigns, be innovative, and produce high quality work of a highly creative nature under time pressure, as part of a team, be able to relate to clients and to have credibility internally at the highest levels in the organisation.

This is an international business, and the new marketing executive (who will report to the Marketing Director) although UK based will be expected to travel extensively with assignments in the USA, Europe and Asia, which could require up to four weeks at a time in each of these continents, twice p.a.

What kind of

1. Package
2. Workstyle
3. Life style

will attract, motivate, retain people to do this kind of work?

Commentary

This mini case shows the reality of creating an attractive employee value proposition (EVP). To decide on the package, the work style and lifestyle that would be attractive to the kind of candidate needed here would require a more complete role description, and a detailed person specification, but even the outline presented gives strong clues.

For the financial aspects of the package one would anticipate a competitive salary above the median, for a company of this size (measured by market cap, and its number of employees) in this particular industry. In addition to attractive bonuses/variable pay and a stock option or employee share plan, there could be a car, health insurance and an attractive defined contribution pension plan.

The ‘work style’ would provide for a reasonable degree of autonomy, balanced by the prioritizing of team goals, flexibility of time (task time rather than clock time), fast paced work requiring resilience to the stress of tight deadlines, ambiguity, frequent travel and demanding management.

This would need to fit with a lifestyle which was consistent with the brand values, and the person appointed would need to have the capacity to be personally interested in, and committed to, the products. A lifestyle which is cosmopolitan, showing intellectual depth where there had been exposure to many different cultures and market places would be valuable.

The total rewards approach moves rewards away from the limited focus on pay and benefits, towards designing EVPs and the association between brand values and employee values. The case raises the practical question of how to operationalize the total rewards approach.

2. Senior management succession

The Case

You need to groom someone as your successor for when you retire from the main board of this central London based Plc. in 2 years time. There is a pool of talent available at one step below the board, salaries there are typically upper quartile, with better than average bonus and benefits for the industry.

You have been told that one of these senior managers (48 years old) is ideal, but she is at risk of leaving, she is well known in the industry, is a high performer, highly motivated person who might easily be poached by Tyson, Shaun (2015) Essentials of Human Resource Management 6th Edition, Routledge, Oxon UK
a competitor. Promotion to the board will require a more formal process than just your say so. How can you ensure this person is retained as your successor, without a promise you can’t make, given there are other high potentials also at her level?

**Commentary**

Although best practice dictates that a proper and systematic process for recruitment takes place, some senior managers do have a strong desire to ensure continuity in their strategic approach, and to develop members of their team to take over when they retire, as a part of their legacy. There are benefits to the organization if the succession is smooth, and there is continuity (for example in relationships with important customers, or suppliers, and if the successor has become admired and known generally in the industry).

The director in this case would argue that he has confidence in his chosen successor, that she has a track record of success, knows the company and its services or products and its external relationships, and can prevent any hold-ups or pauses in business when he retires.

The downside is that although she does have a good record, it is not in performing the director’s job, and this will be different in terms of decision-making and relationships. There may also be subsequent problems with other members of the team if she does take on the role, as they know her as a colleague, but now she will be their boss.

Clearly there would in any case have to be a proper selection process, for her own sake as well as the organization’s, and this would be more likely to legitimize her promotion in the eyes of others if there were other candidates, (external and/or internal). Perhaps the main difficulty here is that she is being sponsored by someone who is leaving, and it would be better if she and her capacity could be better known by other members of the Board. This might best be accomplished if she is given a high profile project where she can report to the board as a whole, so they have a view of her capacity, independent of the director’s recommendation. In addition, the director should check with colleagues as to whether they see her as a likely successor, and HR should set up a formal process for the appointment, when in preparation, HR and the senior director responsible (not the person sponsoring her) can explain the value of the process for both applicants and the company.

3. **Recruiting below market rates in base pay.**

*The Case*

Microsoft typically pays below market salaries and often hires away from other companies at lower rates than their current employer is paying. How is it able to do this?

Commentary
Although this relates to the situation before the recession, in many respects the reasons remain the same. There were two main reasons:
First, the reputation and standing of Microsoft is such that candidates are constantly seeking employment with this prestigious company, in order to add to their CV, and because they believe the development opportunities with Microsoft would help them not only in a career with that company, but also as a boost to their career elsewhere in the industry. The EVP was so strong on the brand image that the base pay package did not matter. Secondly, successful candidates also were offered stock as a part of the long term reward plan, so that the opportunity to become a part of the Microsoft story and the long term financial benefits were a major pull and retention device.

4 Internal versus external labour markets

The Case
Where Internal Labour Markets exist, (i.e. employees typically join at a junior level and progress through promotion, whereby most vacancies/posts are filled) the internal pay structure often differs from the external market. How is this possible, and what are the advantages/disadvantages for the management of talent of an ILM?

Commentary
Pay structures may be different because ILM’s develop pay structures where the relativities between the different pay bands reflect the reality of the jobs inside the organization more than the external rates which vary over time. Relativities are important for organizations which want to maintain the social cohesion of the organization (see Social Comparison theory), and because promotion is a significant incentive for employees.

The advantages of ILM’s for talent management are:
Employees are developed to fit the knowledge and skill base which fits the organization.

Sophisticated talent management policies and techniques such as corporate universities, and strategic long term development schemes such as movements between functions are aided by ILM’s. For graduates/trainees recruitment into a company with an ILM approach is more attractive as there are long term promotion prospects. Reward policies such as pensions and company work style, and life style benefits are attractive and easier to maintain in an ILM. The socialisation which occurs through ILM’s strengthens organization culture, and can be used to reinforce corporate values and to support the employer brand.

The disadvantages of ILM’s:
ILM’s can produce an ‘inward looking culture’, there is a lack of ‘new blood’ to refresh the talent pool
Strong ILM’s could be resistant to change, in a world where agility is important.
Although ILM’s assist the sourcing and development of skills at a junior level, skills can become obsolete over time, and there has to be expensive re-skilling periodically.
There are possible planning problems if large cohorts of people retire all at the same time.
Although some of these problems may be mitigated, for example by fast track development schemes, these also have disadvantages, for example the consequences for ‘them and us’ type relationships.

5 Long term incentive plans

Case

The new company LTIP of this USA based multinational is to be rolled out to senior managers across the world, it will provide senior managers with varying quantities of company shares, according to their performance, and the performance of the company and their length of service and level.

List all the main factors which would need to be considered before such a plan was put in place.

Commentary

Long term incentive schemes (LTIPs) are intended to provide an incentive to recognize the impact of senior level decision-making, which may take many years to show results or otherwise. Incentives such as share option schemes or deferred bonuses are attached to the achievement of defined Tyson, Shaun (2015) Essentials of Human Resource Management 6th Edition, Routledge, Oxon UK
objectives, such as return on capital employed, share price over time, and EBITDA (Earnings before interest, taxation, depreciation, amortisation). The main factors to be considered, include the following.

The strategic issues, such as the business strategy, the key business drivers, the business model, the organization culture, the status groupings. Are accountabilities clear? What are the reactions of shareholders to the idea? How will the LTIP relate to other rewards for the same group, such as short term incentives. The tactical issues, the design features of the scheme will depend upon who the people are in the scheme, their targets, the time frame for their performance to be judged, the nature of the incentive, shares, cash deferred bonuses, paid into pools and then redistributed, etc. The conditions to be attached to any payment, and the rules of the scheme have to be decided.