

Strategic Human Resource Management

Lecture 10

Reward Strategy

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Lecture learning outcomes

At the end of this lecture, you will be able to:

- i. Explain the meaning of reward strategies.
- ii. Analyze the main features or characteristics of a reward strategy.
- iii. Discuss how reward Strategy contributes to the achievement of corporate goals.

10.1 Introduction.

Reward strategy represents a critical pillar within the broader framework of Strategic Human Resource Management (SHRM). It moves beyond the administrative task of calculating paychecks to a strategic imperative designed to directly influence organizational performance. In today's competitive and dynamic business environment, a well-crafted reward strategy is not a luxury but a necessity for attracting, motivating, and retaining the talent required to execute business objectives.

A reward strategy provides specific directions on how the organization will develop and design programmes that will ensure that it reward the behaviour and performance outcomes supporting the achievements of business objectives.

A **reward strategy** can be defined as a forward-looking, deliberate plan that provides specific directions on how an organization will develop and design programmes to reward the behaviours and performance outcomes that support the achievement of its business objectives (Armstrong & Brown, 2020). It answers the fundamental question: "How will our investment in people, through rewards, help us win in the marketplace?"

Closely related is the concept of **reward management**, which is the operationalization of the strategy. It involves "rewarding people in accordance with their value to the organization after assessing their actual and potential contributions." This definition highlights a shift from a one-size-fits-all approach to a more nuanced system that recognizes individual and collective value. Effective reward management acknowledges that employees are not homogeneous; they have unique needs, goals, and drivers. Therefore, the organization must strive to align the rewards offered with these diverse employee needs to maximize their motivational impact (WorldatWork, 2022). This process encompasses the development, implementation,

maintenance, communication, and ongoing evaluation of all reward processes.

Reward management means rewarding people in accordance to their value to the organization after assessing their actual & potential contributions.

- It also means recognizing that employees have their own needs and goals and the organization should strive to match the rewards offered with the needs of the employees.
- Reward management is concerned with both financial and non-financial rewards that act as incentives & are meant to encourage positive performance.
- Reward management can also be defined as an approach that embraces development, implementation, maintenance, communication and evaluation of reward process.
- The reward policy is a set of guidelines on how the organization will deal with various aspects of remuneration.
- The policy is derived from the business strategy and the reward strategy I.e. the business will formulate strategies which details its intentions on how to attain a competitive advantage in its industry. These strategies are referred to as corporate/ business strategies.

A reward strategy is formulated to define the intentions of the organization on how its reward policies and process should be developed to meet the needs of the business. It is concerned with what the organization intends to do about rewards over the next few years.

The Distinction: Business Strategy, Reward Strategy, and Reward Policy

It is crucial to understand the hierarchy and relationship between core strategic concepts:

- **Business Strategy:** This is the organization's overarching plan to achieve a sustainable competitive advantage in its industry. It outlines where the company is going and how it plans to get there.
- **Reward Strategy:** Derived from the business strategy, this defines the *intentions* of the organization regarding how its reward systems will be developed to support and enable the business strategy over the medium to long term (e.g., the next 3-5 years). It is the "what" and "why" of rewards.
- **Reward Policy:** This is a set of specific guidelines and rules derived from the reward strategy. It details *how* the strategy will be executed on a day-to-day basis, covering aspects like pay scales, bonus calculation formulas, and benefits eligibility (CIPD, 2023).

This cascade ensures that every reward decision, from setting a starting salary to awarding an annual bonus, is intrinsically linked to the strategic goals of the business.

The Dual Nature of Rewards: Financial and Non-Financial

Reward management is concerned with a holistic mix of financial and non-financial rewards, both of which act as powerful incentives for encouraging positive performance and

reinforcing desired behaviours.

- **Financial Rewards** are tangible and quantifiable. They include:
 - **Base Pay:** The fixed salary or wage.
 - **Variable Pay:** Bonuses, incentives, commissions, and profit-sharing schemes.
 - **Long-Term Incentives:** Stock options, share grants.
 - **Benefits:** Health insurance, retirement plans, company cars.
- **Non-Financial Rewards** are intangible but increasingly critical for employee engagement and retention. They include:
 - **Recognition:** Formal and informal praise, awards, and acknowledgments.
 - **Career Development:** Opportunities for training, promotion, and skill enhancement.
 - **Autonomy:** The freedom and trust to manage one's work.
 - **Work Environment:** A positive, inclusive, and supportive culture.
 - **Work-Life Balance:** Flexible working hours, remote work options, and generous leave policies.

The modern approach, often termed "**Total Rewards**," emphasizes the synergistic combination of both financial and non-financial elements to create a compelling value proposition for employees (WorldatWork, 2022). Relying solely on financial rewards is often insufficient to foster long-term commitment and intrinsic motivation.

10.2 Features of Reward Strategy: -

1. The strategy should have **Business and Strategic Focus**.

The primary feature of any reward strategy is its alignment with the business. The strategy must spell out intentions that are directly derived from the business and HR strategies, resonate with the organization's culture, and account for the external environment (e.g., industry, competition, legislation). For instance, a tech startup in a hyper-growth phase may design a reward strategy heavily weighted toward stock options to conserve cash and attract risk-tolerant talent focused on long-term gains. In contrast, a stable, established multinational corporation may offer structured, predictable bonuses and comprehensive benefits to attract talent seeking security and work-life balance. This alignment ensures that the reward system is not an isolated HR function but a core business driver (Armstrong & Brown, 2020).

The strategy spells out the intentions of the organization concerning the development of future reward processes and policies. These statements should be aligned to the business and HR strategies, the organization's culture and the environment in which it operates.

2. The reward strategy should communicate the organization's intentions

Though expressed in general terms, the reward strategy should clearly as possible communicate to the employees what the organization intends to do with the rewards.

A strategy that is not understood is a strategy that will fail. Though often expressed in high-

level terms, the reward strategy must be communicated to employees in a clear and accessible manner. The goal is to ensure everyone understands the "rules of the game"—how their contributions are measured, what behaviours are valued, and how they can be rewarded. Transparency in reward processes builds trust, reduces perceptions of favoritism, and enhances the perceived fairness of the system. When employees see a clear line of sight between their efforts, their rewards, and the company's success, motivation and engagement are significantly heightened (PwC, 2023).

3. The strategy should capture the bigger picture i.e. in line with the organization's mission and values; there is need to develop a strategy that appreciates the long term mission and vision of the organization. The reward strategy provides a sense of purpose and direction therefore during the strategic planning process the organization should identify its priorities and develop reward strategies that fit this priority. An effective reward strategy captures the "bigger picture" by being in lockstep with the organization's long-term mission, vision, and core values. It provides a sense of purpose and direction. During the strategic planning process, an organization must identify its strategic priorities and ensure the reward strategy reinforces them. If a company values "innovation," its reward system should recognize and reward creative ideas and calculated risk-taking, even when they don't always lead to immediate success. If "customer obsession" is a core value, then rewards should be tied to customer satisfaction metrics. This alignment ensures that the reward system is a powerful tool for cementing the desired organizational culture (Gupta & Shaw, 2021).
4. **Competency Alignment:** This feature involves linking organizational core competencies with individual competence and skills. Rewards are used to encourage the development of skills and behaviours that are critical to the business's success. This can be operationalized through **competency-based pay** or **skill-based pay** structures, where employees are rewarded for acquiring and mastering new, valuable skills that enhance their flexibility and contribution to the organization, rather than just for the job they currently hold (Gerhart, 2021).
5. **Balancing Individual, Team, and Organizational Rewards:** A sophisticated reward strategy achieves the right balance between rewarding individual performance, team collaboration, and overall organizational success. An over-emphasis on individual performance can foster unhealthy internal competition and undermine teamwork. Conversely, rewarding only team or organizational performance can lead to the "free-rider" problem, where individual high performers are not adequately recognized. A balanced approach might involve a mix of individual bonuses for personal goals, team-based incentives for project completion, and organization-wide profit-sharing or stock options to align everyone with the company's financial health (Milkovich et al., 2020).
6. **Flexibility and Adaptability:** In a VUCA (Volatile, Uncertain, Complex, and Ambiguous) world, a rigid reward strategy quickly becomes obsolete. The strategy must achieve the flexibility required to operate within a changing organization and a highly competitive environment. This includes the ability to adapt to market shifts (e.g., rapidly increasing salary demands for certain skills), mergers and acquisitions, and the evolving needs of a multi-generational workforce. Flexibility can be built through tools like **broad-banding** (using wide

salary ranges instead of numerous narrow grades) and offering flexible benefits packages that allow employees to choose the rewards that best suit their life stage and personal circumstances (WorldatWork, 2022).

10.3 How Reward Strategy Contribute to the Achievement of Corporate Goals

A well-designed reward strategy is not an expense but a strategic investment that makes a direct and powerful contribution to the achievement of corporate goals.

1 Strategic Integration and Performance Improvement

The most significant contribution is the integration of reward policies and processes with the key strategies for growth and improved performance. When reward systems are tethered to strategic objectives, they channel employee effort directly toward those goals. For example, a company whose strategy is to grow market share might heavily weight sales team bonuses on new customer acquisition metrics. A company focused on operational excellence might reward employees for ideas that improve efficiency or reduce waste. This creates a direct line of sight between individual actions and strategic outcomes, turning the reward system into a powerful execution tool (Bamberger et al., 2021).

2 Reinforcing Organizational Culture and Values

The reward system powerfully underpins and signals the organization's values. It answers the question, "What does this organization *truly* value?" A company that professes to value "teamwork" but only rewards individual star performers will quickly see its collaborative culture erode. In contrast, a company like Google uses peer-to-peer bonus systems that allow employees to reward colleagues for demonstrating "Googley" values like collaboration and constructive challenge, thereby actively reinforcing the desired culture. Reward strategies are thus instrumental in driving cultural transformation by making the abstract concept of "values" tangible and consequential (Gupta & Shaw, 2021).

3 Driving Desired Employee Behaviors

Reward strategies drive and support desired behaviours at all levels by explicitly indicating to employees what type of behaviour will be rewarded and how. They act as a key mechanism for shaping the psychological contract between the employee and the employer. If an organization wants to encourage innovation, it must reward experimentation and learning from failure. If it wants to improve customer service, it must link rewards to customer satisfaction scores. The strategic use of rewards sends an unambiguous signal about organizational priorities, guiding employee focus and effort toward the activities that matter most for business success (Gerhart, 2021).

4 Providing a Competitive Edge in Talent Management

A compelling Total Rewards package is crucial to attract and retain the level of skills the organization needs. In a war for talent, the reward offering is a key differentiator. A

strategically designed package that combines competitive financial rewards with sought-after non-financial elements (e.g., exceptional development opportunities, unmatched flexibility, a strong sense of purpose) provides a significant competitive edge. This helps the organization not only to attract high-quality candidates but also to retain its top performers, reducing the costly cycle of turnover and retraining (CIPD, 2023).

5 Ensuring Value for Money and Return on Investment

Finally, a strategic approach to reward enables the organization to obtain value for money from its investment in people. It moves the conversation from "What is this costing us?" to "What return are we getting on this investment?" By linking rewards to clear performance metrics, the organization can ensure that its largest expense—people costs—is directly contributing to productivity, performance, and profitability. This involves careful design to avoid "leakage" (paying for rewards that do not drive performance) and ensuring that reward practices are cost-effective and directly linked to value creation (Milkovich et al., 2020).

10. 4 Developing a Robust Reward Strategy: A Practical Framework

Developing a reward strategy is a systematic process that requires a deep understanding of both the internal and external context of the organization.

1 The Foundational Pillars: Internal and External Factors

The aim is to develop a reward strategy that ensures reward policies and processes are aligned to business and HR goals. The foundation for this strategy is built upon several key pillars:

- **Internal Factors:**
 - **Business and HR Strategies:** The primary driver.
 - **Organizational Culture, Climate, and Management Style:** The strategy must fit the culture or be designed to help change it.
 - **The Employee Profile:** The type of people employed (e.g., their demographics, values, expectations) will dictate what rewards are most valued.
 - **History and Present Reward Arrangements:** It is difficult to implement radical change overnight; the existing system provides a context that must be managed.
- **External Factors:**
 - **Market Considerations:** Competitor pay rates, talent scarcity, and prevailing economic conditions.
 - **Government Regulations:** Minimum wage laws, taxation on benefits, pay equity legislation, and non-discrimination laws (CIPD, 2023).

2 Aligning Business and Reward Strategies: A Detailed Table

The following table provides concrete examples of how different business strategy goals can be translated into specific reward strategies and policies.

Business Strategy Goal	Corresponding Reward Strategy & Policies
To improve employee motivation and commitment.	Introduce performance-related pay plans (e.g., individual bonuses), profit-sharing, or gain-sharing plans that reward employees for contributing to increased profitability.
To attract, develop, and retain high-quality staff.	Ensure that base pay rates are competitive in the market. Develop pay structures that reward people for their competencies and skills, not just their job title. Implement robust recognition and career development programmes.
To achieve technological advancement and flexibility.	Introduce skill-based pay to encourage multi-skilling and job flexibility. Adopt flexible pay structures like broad-banding to allow for growth without traditional promotions.
To develop the capacity to respond quickly to new opportunities.	Reward agility, cross-functional collaboration, and the successful completion of innovative projects. Use spot bonuses for exceptional contributions to urgent initiatives.
To deliver better quality and value to customers.	Recognize and reward individuals and/or teams for meeting and exceeding customer service standards and quality metrics. Tie incentives to Net Promoter Scores (NPS) or customer satisfaction indices.

3 The Evolution to Total Rewards

A modern reward strategy often evolves into a **Total Rewards** approach. This framework recognizes that employees are motivated by a complete package, not just pay. It strategically incorporates the best mix of five key elements:

1. **Compensation:** Base pay, variable pay, and long-term incentives.
2. **Benefits:** Health, financial, and retirement benefits.
3. **Career Development:** Learning opportunities, mentoring, advancement paths, and tuition assistance.
4. **Work-Life Balance:** Flexible work arrangements, paid time off, and wellness programmes.
5. **Culture & Environment:** Leadership, recognition, performance management, and the overall work experience.

By addressing the whole employee, the Total Rewards model creates a more powerful, sustainable, and attractive value proposition that drives deeper engagement and loyalty (WorldatWork, 2022).

10.5 Summary

In summary, reward strategy transcends the traditional, administrative function of payroll to become a cornerstone of strategic human resource management and a critical driver of business success. It is a deliberate, forward-looking plan that translates an organization's ambitions into a coherent framework for valuing and rewarding its people. The lecture elucidates that an effective strategy is not created in a vacuum; it is inherently **business-focused**, derived directly from corporate goals, and must be **clearly communicated** to ensure employee understanding and buy-in.

The core of a modern reward strategy lies in its ability to be **multifaceted**. It must balance financial and non-financial rewards, moving beyond mere compensation to embrace the holistic "**Total Rewards**" model that includes career development, work-life balance, and a positive work environment. Furthermore, it must intelligently balance incentives for **individual, team, and organizational performance** to foster both accountability and collaboration. Crucially, the strategy must be **flexible** enough to adapt to a rapidly changing business environment and the evolving needs of a diverse workforce.

The ultimate value of a reward strategy is demonstrated through its direct contribution to corporate objectives. It is a powerful tool for **reinforcing organizational culture and values, driving specific, desired employee behaviours**, and providing a **competitive edge in the talent market**. By aligning employee efforts with strategic priorities, it ensures that the organization gets **value for money** from its largest investment—its people.

Therefore, developing and implementing a robust reward strategy is a strategic imperative. It requires a deep understanding of both internal factors (business strategy, culture, employee profile) and external pressures (market rates, legislation). As illustrated by leading organizations, when reward strategy is treated not as an HR initiative but as a core business process, it ceases to be a cost and becomes a strategic investment—unlocking human potential, fostering a high-performance culture, and creating a sustainable competitive advantage essential for long-term success.

10.6 Reflection Questions and Answers

1. Reflective Question:

"Identify a core value or strategic goal in your organization (or an organization you are familiar with). How do the current reward systems, both formal and informal, reinforce or undermine this goal? Provide a specific example and suggest one change to better align rewards with this objective."

Model Answer:

A common core value in many modern organizations is "Collaboration and Teamwork." However, the reward systems often undermine this goal. For instance, an organization might heavily promote teamwork in its internal communications, but its primary reward mechanism

is an annual individual performance bonus based solely on personal metrics like individual sales targets or department-specific goals.

- **How it Undermines the Goal:** This creates a scenario where an employee must choose between helping a struggling colleague (which takes time away from their own targets) and maximizing their personal bonus. The rational choice, driven by the reward system, is to prioritize individual performance. This fosters internal competition, siloed thinking, and knowledge hoarding, directly contradicting the value of collaboration.
- **Suggested Change for Better Alignment:** To better align rewards, the organization could introduce a **team-based or project-based bonus component**. For example, a portion of the variable pay (e.g., 20-30%) could be tied to the success of a cross-functional team in achieving a shared goal, such as launching a new product or improving a key customer satisfaction metric. This would financially incentivize employees to share information, support one another, and collectively problem-solve, thereby reinforcing the stated value of collaboration. This change directly applies the principle that reward strategy must drive desired behaviours (Gerhart, 2021).

2. Reflective Question:

"Considering the 'Total Rewards' model, which non-financial reward element (Career Development, Work-Life Balance, or Culture/Environment) do you believe is most undervalued by leaders in your industry? Justify your choice and explain how a strategic investment in this area could improve both employee retention and organizational performance."

Model Answer:

In many fast-paced, knowledge-worker industries (like technology or professional services), I believe "**Work-Life Balance**" is the most undervalued non-financial reward element by leaders.

- **Justification:** Leaders often pay lip service to work-life balance but perpetuate a culture of "always-on" availability through late-night emails, weekend work expectations, and measuring commitment by hours spent in the office or online. They may offer competitive salaries and bonuses (Compensation) and training programmes (Career Development), but they fail to address the chronic stress and burnout that lead to high turnover. This is a strategic blind spot because the modern workforce, especially younger generations, increasingly prioritizes flexibility and well-being over pure financial gain.
- **Impact of Strategic Investment:** A strategic, genuine investment in work-life balance—such as implementing mandatory time-off policies, discouraging after-hours communication, and offering genuine flexible and remote work options—could dramatically improve retention and performance.
- **For Retention:** It directly reduces burnout, a primary driver of voluntary turnover. Employees who feel their personal time is respected develop stronger loyalty and are less likely to leave for a slight pay increase elsewhere.

- **For Performance:** Well-rested employees with control over their schedules are more focused, creative, and productive when they are working. This investment reduces errors, improves decision-making, and fosters a more positive and sustainable work environment. This approach embodies the Total Rewards philosophy, recognizing that a holistic package is more powerful than compensation alone (WorldatWork, 2022).

3. Reflective Question:

"Reflect on the last piece of critical feedback you gave or received. Using the SBI (Situation-Behaviour-Impact) model, reframe that feedback. How could embedding this model into a culture of regular check-ins, rather than saving feedback for an annual review, change the outcome and the relationship between the giver and receiver?"

Model Answer:

The last piece of critical feedback I observed was a manager telling a team member, "Your presentation to the client was disorganized and confusing."

- **Reframing with the SBI Model:**

- **Situation:** "During the quarterly business review with Client X yesterday..."
- **Behaviour:** "...I noticed that the presentation skipped from the current results directly to the long-term roadmap, without showing the data analysis from slides 4-6 that bridges the two."
- **Impact:** "...the impact was that the client's senior VP interrupted to ask for the missing analysis, which broke the flow of the presentation and gave the impression that our strategy wasn't fully backed by data."

- **How Regular Check-ins Change the Outcome:**

- **In an Annual Review:** This feedback, delivered months later, would be too late. The employee might barely remember the specific presentation, feel attacked by the vague, judgmental language ("disorganized"), and become defensive. The conversation would be a backward-looking critique with no opportunity for immediate improvement, damaging trust.
- **In a Regular Check-in:** Using the SBI model in a weekly check-in, the manager can provide this feedback while the event is fresh. The focus shifts from a personal judgment to a constructive, problem-solving discussion. The manager can follow up by asking, "What support do you need to structure future presentations more effectively?" This makes the feedback timely, specific, and actionable. It transforms the manager from a judge into a coach, strengthening the relationship through a shared commitment to growth and immediately correcting a performance issue before it becomes a pattern (Mone & London, 2018). This practice is a core tactical strategy for making performance management continuous and effective.

Key Takeaways

1. **It's Strategic, Not Administrative:** Reward strategy is a forward-looking, deliberate plan—not just about paying people. Its primary purpose is to align employee behavior and performance with the overarching **business strategy** to gain a competitive advantage.

2. **The "Total Rewards" Mindset is Crucial:** Effective reward systems encompass both **financial rewards** (pay, bonuses, benefits) and **non-financial rewards** (recognition, career development, work-life balance). A holistic "Total Rewards" approach is more powerful for attraction, motivation, and retention than compensation alone.
3. **Alignment is Everything:** The strategy must be intricately aligned with the organization's **goals, culture, and values**. What gets rewarded gets repeated; therefore, the reward system must explicitly reinforce the specific behaviors and competencies the organization needs to succeed.
4. **Communication and Transparency Build Trust:** Employees must understand the "rules of the game." A clearly communicated reward strategy reduces ambiguity, builds trust in the system's fairness, and helps employees see the direct link between their contributions and their rewards.
5. **Balance and Flexibility are Key:** The strategy must strike a balance between rewarding **individual, team, and organizational performance**. It also must be **flexible** enough to adapt to a changing business environment, different employee needs, and market pressures.
6. **Managers are the Linchpins:** The success of any reward strategy hinges on managers. They must be equipped and trained to act as **coaches**—giving effective feedback, having difficult conversations, and making fair reward decisions—not just as judges.
7. **It's a Powerful Tool for Shaping Culture:** The reward system is a direct reflection of what the organization *truly* values. It is one of the most powerful levers for **reinforcing desired behaviors, driving cultural change, and embedding core values** into the fabric of the company.
8. **The Goal is a Win-Win Outcome:** A well-designed reward strategy creates a virtuous cycle: it helps the organization **achieve its strategic objectives** and obtain a return on its people investment, while simultaneously helping employees **achieve their personal and professional goals**, leading to higher engagement and retention.

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