

Human Resources Management In Context

**Lecture Title :-
Reward and Compensation Strategy**



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**Masters in
Human Resources Management**

Learning Objectives

- Understand the strategic purpose of reward systems in HRM
- Explore different forms of financial and non-financial rewards
- Apply motivational theories to assess the effectiveness of pay and benefits
- Critically discuss contemporary trends in compensation

Group discussion

- What do you understand by the term reward system?
- What makes a reward system feel fair or unfair to employees—and how might this affect their performance or loyalty?



“A **reward strategy** refers to the deliberate and systematic plan developed by an organisation to align its reward practices—both financial and non-financial—with its overarching business objectives and human resource goals. It is designed to **attract, motivate, and retain talent**, while ensuring internal equity and external competitiveness” (Armstrong & Brown, 2019).

Reward Strategy in Human Resource Management

The significance of reward strategy in Human Resource Management (HRM) lies in its ability to:

- **Attract** high-quality talent in a competitive market.
- **Motivate** employees to achieve individual and organisational goals.
- **Retain** skilled employees and reduce costly turnover.
- **Support organisational culture and values**, such as innovation or collaboration.
- **Ensure legal compliance** and manage costs effectively.

“A reward strategy provides a sense of direction and purpose, and a framework for developing reward policies, practices, and processes that support the achievement of business goals” (Armstrong & Brown, 2019).

Link Between Employee Engagement, Performance, and Reward

Fair Rewards	Unfair Rewards
Increase motivation to perform well	Decrease motivation
Leads to improved effort	Reduce overall effort
Increases loyalty to the organisation	Reduce loyalty to the organisation
Improve employee engagement	Leads to employee disengagement
Reduce turnover	Increases turnover

Group discussion

How can you link reward and compensation systems to business strategy?



Reward Strategy in Human Resource Management

An effective reward strategy should be **aligned with the overall business strategy** to ensure that compensation drives the behaviours and outcomes the organisation seeks.

- **A growth-oriented strategy**

Offer performance bonuses and equity to encourage innovation and long-term commitment

- **A cost-leadership strategy**

Focus on internal equity and efficiency-based pay

- **Focus on customer service strategy**

Reward collaboration, service excellence, and customer satisfaction.

Group discussion

- Give some examples of financial and non-financial rewards.
- Do you think there are cultural and generational differences in reward preferences? How?



Financial Rewards – (Extrinsic Motivator)

Type of Reward	Examples
Base Pay	Salary, hourly wage, overtime pay
Variable Pay	Bonuses, commissions, performance-based incentives
Equity-based Rewards	Stock options, employee share schemes
Benefits/Perks	Health insurance, retirement/pension contributions, childcare support
Allowances	Travel allowance, housing allowance, meal vouchers
Profit Sharing	Organisation-wide profit-sharing schemes
Signing/Retention Bonuses	One-time bonuses for joining or staying

Non Financial Rewards – (Intrinsic Motivator)

Category	Type of Reward	Examples
Recognition & Appreciation	Verbal or written praise	Public acknowledgement in meetings, personal thank-you notes, internal awards
	Peer recognition	"Shout-outs" boards, peer-nominated awards
Career Development	Learning opportunities	Training workshops, certifications, access to conferences
	Advancement opportunities	Internal promotions, cross-functional projects, career path planning
Work-Life Balance	Flexibility	Flexible hours, remote/hybrid work, compressed workweeks
	Extra leave	Sabbaticals, mental health days, parental leave beyond legal minimum
Job Design & Enrichment	Autonomy and responsibility	Delegation of authority, leading projects, decision-making power
	Variety and challenge	Rotational assignments, job enlargement/enrichment

Non-Financial Rewards – (Intrinsic Motivator)

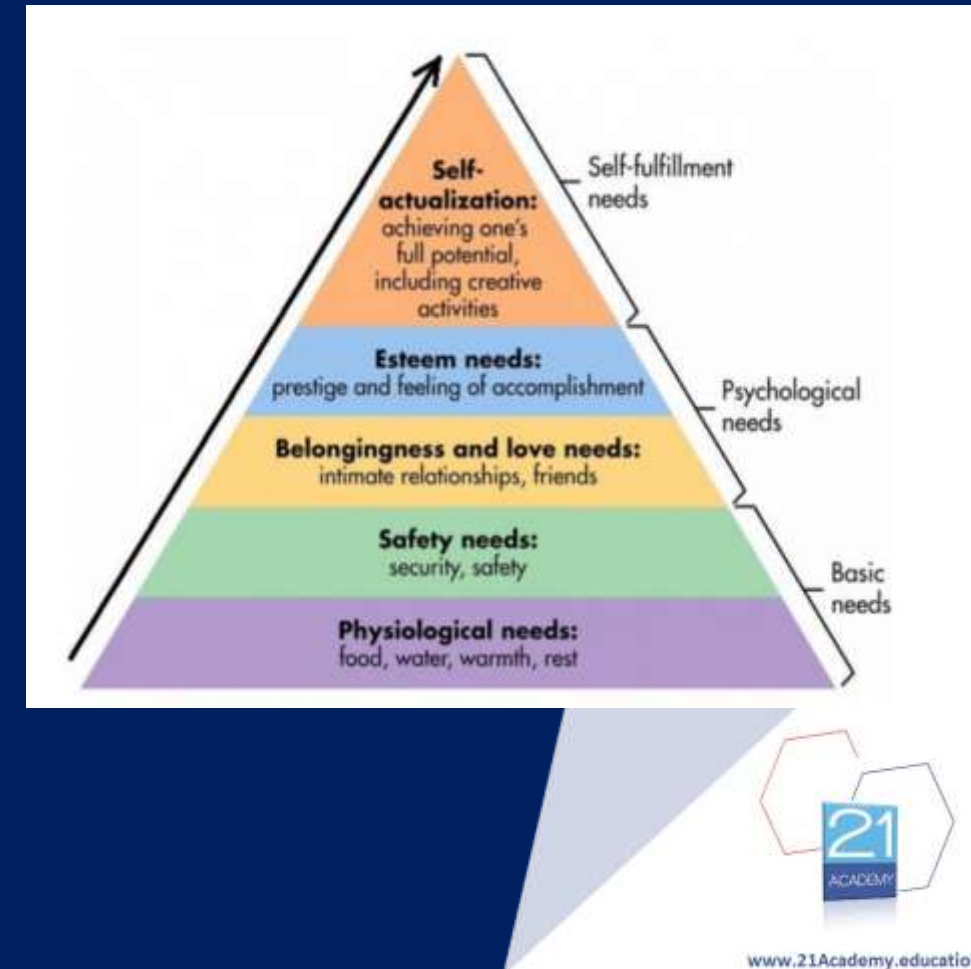
Category	Type of Reward	Examples
Organisational Culture	Supportive environment	Inclusive leadership, transparent communication, feedback culture
	Alignment with values	Working for a purpose-driven organisation, ethical leadership
Health & Wellbeing	Mental health and wellness support	Counselling services, wellness programs, mindfulness sessions
	Lifestyle support	On-site gym, healthy food options, ergonomic workspace
Social Rewards	Team cohesion and belonging	Team-building events, inclusive team rituals, social committees
	Status and identity	Special titles, visible project roles, opportunities to represent the company



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Motivation and Reward Design – Maslow's Theory

Need Level	Relevant Rewards
Physiological	Fair base pay, benefits (e.g., food vouchers, housing)
Safety	Job security, health insurance, retirement plans
Belonging	Team events, inclusive culture, mentorship
Esteem	Recognition programs, promotions, job titles
Self-Actualisation	Career development, autonomy, meaningful work



Vroom's Expectancy Theory (1964)

The Expectancy Theory is based on the formula that :

$$\text{Motivation} = \text{Expectancy} \times \text{Instrumentality} \times \text{Valence}$$

Will effort lead to performance? (Expectancy)

- Set goals and give feedback to reinforce expectancy

Will performance lead to reward? (Instrumentality)

- Offer transparent reward systems to support instrumentality

Is the reward desirable? (Valence)

- Offer different types of rewards to generate interest and enhance valence

Herzberg's Two Factor Theory (1959)

This theory is based on the principle that two main factors influence motivation:

1. Motivators –

These lead to job satisfaction and motivation when present. Their absence doesn't necessarily cause dissatisfaction.

Ex – Achievement, Recognition, Growth, Meaningful Work

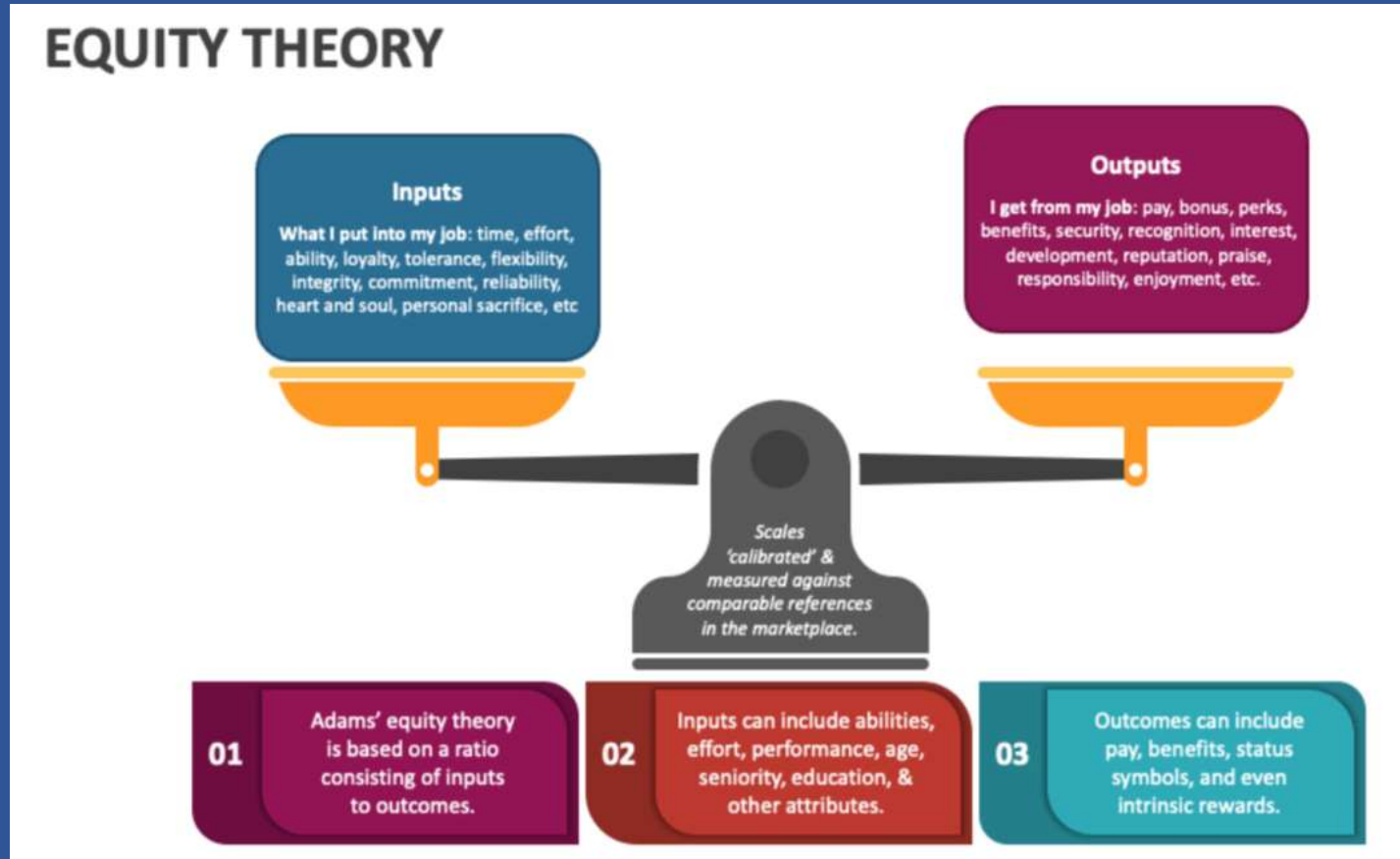
2. Hygiene factors –

These factors are essential to prevent dissatisfaction but do not necessarily motivate employees.

Ex – Fair and competitive salaries, Safe Work Environment, Job Security, Fair and Transparent Policies.

Equity Theory (Adams, 1965)

Employees are motivated when they perceive fairness in the ratio of their input (effort, experience) to output (pay, recognition), compared to others.



Organisations should conduct internal equity audits and communicate reasons behind pay decisions to ensure employees feel they are fairly rewarded.

Self-Determination Theory (Deci & Ryan, 1985)

Self-determination theory posits that motivation is strongest when the following three intrinsic needs are met :-

1. Autonomy (control over one's work)

- Can be achieved by offering flexible work arrangements and freedom in task execution

2. Competence (feeling effective)

- Offering learning opportunities and feedback

3. Relatedness

- Involvement in team projects, creating an inclusive work environment and coaching

QUIZ





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