Chapter 1: Reward strategy and management

Remuneration and benefits have always formed the core of the overall reward system. However, organisations are increasingly discovering the value of implementing a more holistic approach to reward management.

Although remuneration and benefit programmes remain essential, the organisations that succeed the best in attracting and retaining employees take a total rewards approach. In addition to this, they ensure that employees develop an appreciation for the employee value proposition (EVP) created in this way. Organisations’ values underlie the EVP and each value needs to be harmonised with the EVP.

The EVP should be defined in the reward strategy and identified as one of the objectives of the strategy.

The total rewards model

Total rewards\(^1\) (refer to the model above) include fixed and variable remuneration (referred to as compensation in the model), benefits, other aspects of reward such as work-life balance, performance and recognition, and development and career opportunities.

\(^1\) The total rewards model was developed by the WorldatWork in consultation with industry specialists. It is based on research on the factors influencing the attraction, retention, engagement and motivation of people, conducted over a long period.
The objective of a total rewards approach is to drive desired behaviours in a company’s workforce that will ensure the organisation’s success. The challenge is to find the proper mix of reward mechanisms at the different levels in the organisation to satisfy the financial and personal needs of the workforce, given existing business conditions and cost constraints. It must be specific enough to ensure alignment with the values and business strategy, yet generic enough to meet the needs of all the organisation’s stakeholders. Ultimately, the reward strategy should contribute to business performance and results and to the satisfaction and engagement of employees.

The remuneration strategy is an official document that must be approved by the Remuneration Committee (or governance body assigned to oversee reward practices in the organisation). It will appear on the agenda of that committee at varying intervals, according to the requirements of the organisation involved and will be approved for periods as defined by the Remuneration Committee.

The remuneration strategy drives the annual agenda of the Remuneration Committee and all remuneration policies and decisions should be tested against the remuneration strategy to determine whether they are within the guidelines and spirit of the strategy and therefore in line with the business philosophy and strategy.

1.1. Aims of a total reward strategy

A total reward strategy has three aims:
(a) To provide an integrated approach for reward management that effectively attracts, motivates, engages and retains the talent required to achieve the desired business results.
(b) To align reward practices with business strategy through a process of analysis and thereby ensure that the reward practices serve the business objectives. It provides guidelines and direction for the reward choices that will be made because it interprets the reward strategy and practices in terms of the business needs.
(c) To adhere to legal, ethical and best practice standards and to reflect corporate governance and citizenship by complying with the customary norms and industry and statutory minimum standards.

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2 For the rest of the document, Remuneration Committee also refers to any other governance body assigned to oversee reward practices in the organisation.
1.2. How to develop and implement a total rewards strategy

Implementing a total rewards strategy is the art of combining the five elements of total reward into tailored reward packages for the various employee groups in the organisation in such a way as to achieve optimal motivation and engagement.

For the total rewards strategy to be successful; employees must see the monetary and non-monetary rewards as valuable and business must consider the reward choices to be the best investment in people to serve business objectives. That is why the rewards strategy is preceded by the business strategy and must link into it.

When developing an effective total rewards strategy for an organisation the following process is followed:

1.2.1. Analyse the business environment and understand the external factors

The business environment should be scanned for economic and legislative factors, among others, that could influence the reward positioning of the organisation. Specific analysis that should be performed includes the following:

(a) A thorough understanding of the organisation, its business drivers and the internal culture to ensure that the reward strategy supports business objectives and aligns with the desired culture.
(b) Identifying key stakeholders involved in the organisation and conducting a needs analysis to understand their priorities, preferences and needs. (See Annexure A for a pro forma stakeholder needs analysis)
(c) Understanding the quantitative and qualitative skill requirements of the organisation to fulfil its business objectives and the demand and supply factors that play a role in attracting and retaining these skills.

1.2.2. Draft a reward strategy document

The reward strategy should contain a summary of the factors (assumptions) that were taken into account when the strategy was developed. This must assist the approvers of the strategy to place it into context. This information should inform a policy document or statement.

This should define the way each element of total reward will be earned and allocated. It should be easily accessible to all levels of employees
and should describe the what, why and who of all rewards in a way that employees can understand and relate to.

The human resource function should develop and maintain the reward policies and ensure that they comply with legislation, support the organisation’s strategy and culture and align with the reward philosophy. The strategy itself must provide the organisation with directives and should include the following elements:

- **Reward strategy objectives:**
  What is the strategic intent of the reward strategy? These objectives should be defined in such a way that success can be measured (They should be SMART objectives – specific, measurable, achievable, relevant and time-framed). Reward objectives normally relate to the attraction, retention, motivation and engagement of employees.

- **The reward philosophy:**
  What are the reward principles that should underpin the reward framework and that will guide the development of the various reward practices and reward decisions? Stakeholders will look to this philosophy to set guiding principles on how reward will be handled in the business.

- **The optimal mix of total reward elements (the reward framework):**
  To be optimal, the mix of reward elements is contained in the rewards framework, constructed in terms of the reward model that takes into account the organisation’s objectives and is aligned with them.

  This framework could be a simple mix of reward elements for the whole organisation or it could be customised for the various categories of employees in the organisation, as they are driven and motivated by different factors. The framework should be designed to excite a keen interest in the success of the organisation in employees.

  All elements of the total rewards model must be considered:

  (a) **Remuneration**
  - Remuneration consists of both fixed and variable remuneration. The mix of these two kinds of remuneration
should promote attracting and retaining talent without promoting undesirable remuneration gaps.

- Those receiving the remuneration will want to maintain their desired standard of living.

- It is vital to promote a performance drive that sustains the organisation’s operations and customer service that meets legal and ethical standards.

- Corporate governance and citizenship should be reflected in the organisation’s remuneration through compliance with the customary norms as well as industry and statutory minimum standards. This should be done without supporting irresponsible corporate behaviour.

- The organisation should draft a specific statement setting out its position with regard to these variables, so that it can be used as a guideline against which to test policy decisions, positioning and actions.

(b) Benefits

- Benefits should be cost effective and cost efficient, have controllable cost escalation rates and be appropriate to the stage of the business life cycle in which the organisation finds itself. The selection of benefits must sustain the organisation’s existence.

- To enhance the standard of living of the recipient, benefits must be efficiently administered.

- The organisation should draft a specific statement setting out its position with regard to benefits, so that it can be used as a guideline against which to test policy decisions and product development.

(c) Work-life balance

- Although it is important to promote a work-life balance, work-life programmes should not disrupt operations or hamper production.

- Nonetheless, the balance between career and life obligations should be such that it helps to manage stress levels in the
workplace and allows enough rest.

- The organisation should draft a specific statement setting out its position with regard to work-life balance and the working environment, so that it can be used as a guideline for business involvement and standards in this regard.

(d) Performance and recognition

- Performance and recognition programmes should be both monetary and non-monetary and should be cost-effective. They should drive organisational, team and individual peak performance to sustain the organisation’s existence.

- It is important that these programmes should be fairly administered and should give recognition to teams and individuals who excel.

- The organisation should draft a detailed statement of how it intends to provide recognition for performance, recognising the complexity and sensitivity of this issue. This statement must be specific enough to guide policy, product development and assessment of value-add and should be available to audit products against.

(e) Development and career development

- Development can be wider than just productivity improvement. Where development forms part of the EVP, measures of value-add should be developed and approved up front.

- Development and career opportunities should develop talent and skills and grow the leadership potential of future leaders.

- Where planned succession and career pathing is offered as an EVP, employees need be provided with a clear line of sight for career progression. If planned succession and career pathing is offered as an EVP proposition, opportunities to develop potential must be provided.

- Skills development and equitable advancement should be promoted. This will make it easier to attract talent and
retain a human capital base that will sustain the organisation’s existence.

- The organisation should draft a detailed statement of how it positions rewarding its talent to guide decisions on the differentiation of talent. This statement must address the needs of all stakeholders and be clear, without ambiguity.

- A calculation of the cost of the reward framework (total mix) should be provided to guide the Remuneration Committee in approving the total mix of benefits.

1.2.3. Draft a communication plan

This should outline way in which the reward system will be promoted internally and externally – what target audiences will receive communication, what channels will be used, how frequently communication will take place, how coverage in the various channels will be achieved and the underlying message to be conveyed. This plan should be part of change management and dealt with accordingly. It should also provide guidelines on communication interventions, timelines and content.

The human resource function should monitor all reward communication strategies and processes against defined objectives and success criteria to facilitate continuous improvement in reward communication.
**Annexure A: Stakeholder analysis checklist for the remuneration strategy**

The following are the standards that should be met from a stakeholder perspective when deciding on objectives for the reward strategy, a reward philosophy, a reward framework, reward policies and reward communication:

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<th>Shareholders</th>
<th>Shareholders will expect the reward system to <strong>align employees’ behaviour and performance with business objectives</strong> and to encourage sustained business performance.</th>
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<td>Shareholders will also want to know how the reward philosophy will impact on their return on their investment.</td>
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<td>They will want to know about the pay mix, incentive remuneration, the link between pay and performance and governance.</td>
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<td>They will expect clearly defined reward policies, especially in the case of those for top management. These policies should support the principle of aligning rewards with the financial performance of the business.</td>
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<td>They will also expect a clearly articulated reward philosophy to be communicated to all stakeholders and to see detail about how it has guided remuneration decisions in the annual report, if the organisation is a listed company, and in other media.</td>
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| Management | Management will want the reward system to **attract and retain the appropriate skills and to encourage performance** against defined business objectives.  

They will want to know how the reward philosophy will enable them to run a successful business.  

The organisation’s market position with regard to remuneration, the pay mix, incentive remuneration, the link between pay and performance, how lifestyle requirements are met and reward delivery mechanisms will be important to them.  

They will look to the organisation’s reward policies to enable them to make effective reward decisions and to help them to manage the reward framework effectively.  

Management will play an important role in reward communication and will expect to be equipped with reward communication information and tools.  

To ensure optimum employee engagement, management will need to create a process and culture that promote two-way reward communication. |
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| Employees | Employees will look for a reward strategy that **rewards them fairly**, taking into consideration the scope of the roles they fulfil in the organisation, their performance, and competitor salaries. The reward strategy should make provision for them to make a contribution to the reward strategy.  

Employees will have a particular interest in how the reward philosophy will impact on their employment relationship with the employer. Those of them in certain human resources roles will also want to know how the reward philosophy will enable them to attract, motivate and retain key resources.  

The organisation’s market position with regard to remuneration, the pay mix, incentive |
Remuneration, the link between pay and performance and how lifestyle requirements are met will be important to them.

Employees in certain human resources roles will also want to know how the other employees experience the reward delivery mechanisms.

They will expect to have easy access to reward policies and will want these to be clear and easy to understand and relate to, no matter what level of the organisation they occupy.

Reward communication will need to be tailored to the various audiences in the employee body and will have to be ongoing. In the process, employees’ knowledge of the various components of reward will have to be assessed and improved.

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<th><strong>Unions</strong></th>
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<td>The unions will want the reward system to encourage <strong>equitable remuneration</strong> across the business. They will pay particular attention to how the business will handle annual increments, remuneration related benefits such as overtime and benefits.</td>
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<td>They will also expect role evaluation and pay differentiation to be clear in the reward philosophy.</td>
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<td>The unions will expect to have access to the reward policies and the ability to influence those that govern the employer-employee relationship.</td>
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<td>They will want an open two-way communication relationship that will encourage the organisation and its employees to work together to find solutions to issues that impact the employer-employee relationship.</td>
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| **Customers** | A reward system that promotes attention to **customer satisfaction** and a customer service culture, with the accompanying customer-centric behaviour, will please customers.  

Customers will want incentive remuneration to be designed in such a way that it does not promote irresponsible behaviour towards them or their communities (for instance, by driving short-term objectives that will lead to irresponsible sales to people who cannot afford the product).  

They will also expect reward that affects the cost of goods and services to be communicated up front to customers. They will want that communication to reflect fair and legitimate reward practices. |
| **Remuneration Committee** | An integrated approach to **sound corporate governance** in the reward system will be the main concern of the Remuneration Committee.  

This committee will want the reward philosophy to promote the effective use of reward to ensure that the appropriate employees are being attracted and retained to achieve business goals.  

It will expect the reward policies to have been checked to ensure that corporate governance requirements are met and to have been approved by the necessary authorities in the organisation.  

All reward communication strategies and initiatives will need to be endorsed by the remuneration committee to ensure that messages are consistent and will contribute to creating a legitimate organisation image. The remuneration committee will, for instance, approve the format of the annual report. |
| **Audit Committee** | The Audit Committee’s requirement will be that the reward system should comply with the necessary **financial and governance policies**. They will also expect reward processes to be designed to prevent fraud or misuse of financial resources.  
They will look to the reward philosophy to set governance measures to ensure that reward resources are spent responsibly and legally.  
This committee will want the reward policies to comply with legislation and audit standards set out in the organisation’s internal audit requirements.  
Reward communication will have to reflect effective and correct application of reward policies and practices to meet the Audit Committee’s requirements. |
| **Regulators and authorities** | Regulators will expect the reward system and policies to comply with **legislation and regulations**, be legitimate and promote transformation initiatives. They will also expect this compliance to be ensured in the organisation.  
Reporting to the authorities must be legitimate and meet compliance and legislative requirements.  
The training authorities will look for reward systems and policies to be underpinned by accredited reward training and educational programmes. |
| **Community** | The community and the general public will expect a reward system that is structured to promote a company culture of **responsible management** and to discourage any behaviour that would jeopardise the wellbeing of the community or society as a whole.  
They will also want reward policies to promote community upliftment. |