

Managing Employee Performance and Reward

CONCEPTS, PRACTICES, STRATEGIES

Second edition

Now in its second edition, *Managing Employee Performance and Reward* continues to offer comprehensive coverage of employee performance and reward, presenting the material in a conceptually integrated way.

The seminal first edition, written by John Shields, explored these two pivotal and closely connected (yet controversial and challenging) facets of human resource management. This new edition has been substantially updated and revised by a team of specialist contributors, and includes:

- an increased focus on employee engagement and the alignment between the organisation's goals and the personal goals of employees
- expanded coverage of coaching, now a leading-edge performance enhancement practice
- extensive updates reflecting the major changes in employee benefits in recent years, as organisations strive to attract and retain talent
- updated coverage of executive salaries and incentives in the contemporary post-GFC environment.

The book addresses performance and reward fundamentals and key themes in employee psychology and human resource strategy. This is followed by a discussion of options for performance management practice, structuring and managing base pay and benefits, and configuring performance-related rewards for individual employees, work groups and executives. Each chapter includes a chapter summary and discussion questions to further consolidate understanding. A new case study with model answers is also included, with additional case studies available via the book's website.

This popular text is an indispensable resource for both students and managers alike. Written for a global readership, the book will continue to have particular appeal to those studying and practising people management in the Asia-Pacific region.

Additional resources for instructors are available online at www.cambridge.edu.au/academic/managing.

John Shields is Deputy Dean (Education) of The University of Sydney Business School and Professor of Human Resource Management and Organisational Studies in the Discipline of Work and Organisational Studies.

Managing Employee Performance and Reward

Second edition

CONCEPTS, PRACTICES, STRATEGIES

John Shields

Michelle Brown, Sarah Kaine, Catherine Dolle-Samuel,
Andrea North-Samardzic, Peter McLean, Robyn Johns,
Patrick O’Leary, Geoff Plimmer and Jack Robinson

CAMBRIDGE UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom
One Liberty Plaza, 20th Floor, New York, NY 10006, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
4843/24, 2nd Floor, Ansari Road, Daryaganj, Delhi – 110002, India
79 Anson Road, #06–04/06, Singapore 079906

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning and research at the highest international levels of excellence.

www.cambridge.org

Information on this title: www.cambridge.org/9781107653535

First edition © John Shields 2007

Second edition © Cambridge University Press 2016

This publication is copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2007

Second edition 2016 (version 2, September 2016)

Cover designed by watershed art + design

Typeset by Aptara Corp.

Printed in Singapore by Markono Print Media Pte Ltd, August 2016

A catalogue record for this publication is available from the British Library

A Cataloguing-in-Publication entry is available from the catalogue of the National Library of Australia at www.nla.gov.au

ISBN 978-1-107-65353-5 Paperback

Additional resources for this publication at www.cambridge.edu.au/academic/managing

Reproduction and communication for educational purposes

The Australian *Copyright Act 1968* (the Act) allows a maximum of one chapter or 10% of the pages of this work, whichever is the greater, to be reproduced and/or communicated by any educational institution for its educational purposes provided that the educational institution (or the body that administers it) has given a remuneration notice to Copyright Agency Limited (CAL) under the Act.

For details of the CAL licence for educational institutions contact:

Copyright Agency Limited
Level 15, 233 Castlereagh Street
Sydney NSW 2000
Telephone: (02) 9394 7600
Facsimile: (02) 9394 7601
E-mail: info@copyright.com.au

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

■ Contents

List of figures and tables vii

List of contributors x

Part 1 The fundamentals **1**

- 1 Performance and reward basics 3
John Shields and Sarah Kaine
- 2 Managing for engagement 18
John Shields and Robyn Johns
- 3 Strategic alignment 53
John Shields and Catherine Dolle-Samuel

Part 2 Performance management in action **77**

- 4 Managing for results 78
John Shields and Andrea North-Samardzic
- 5 Shaping behaviour 96
John Shields and Peter McLean
- 6 Reviewing and developing employee performance 140
John Shields and Michelle Brown

Part 3 Base pay and benefits **161**

- 7 Base pay purpose, structures and options 162
John Shields and Patrick O’Leary
- 8 Developing position-based base pay systems 180
John Shields and Catherine Dolle-Samuel
- 9 Developing person-based base pay systems 202
John Shields and Catherine Dolle-Samuel
- 10 Employee benefits 218
John Shields and Andrea North-Samardzic
- Case study: Bizarre bonuses? Gender pay inequity at Flinders Bank 236
John Shields and Andrea North-Samardzic

Part 4 Rewarding employee performance **239**

- 11 Overview of performance-related rewards 240
John Shields and Michelle Brown
- 12 Individual performance pay plans 254
John Shields and Sarah Kaine
- 13 Individual recognition plans 280
John Shields and Sarah Kaine
- 14 Collective incentives 291
John Shields, Geoff Plimmer and Jack Robinson

CONTENTS

15 Employee share ownership	320
<i>John Shields and Michelle Brown</i>	
16 Executive incentives	336
<i>John Shields, Jack Robinson and Geoff Plimmer</i>	
Part 5 System change and dynamic alignment	367
17 Achieving alignment: system review, change and development	368
<i>John Shields and Peter McLean</i>	
<i>Appendix: Model responses to case study</i>	392
<i>John Shields and Andrea North-Samardzic</i>	
References	394
Index	432

■ Figures and tables

Figures

1.1	What is performance?	4
1.2	The performance management cycle	6
1.3	Components of 'total reward'	12
2.1	Expectancy theory (Vroom 1964)	29
2.2	Expectancy theory (Porter and Lawler 1967)	30
2.3	Goal-setting theory (Latham and Locke 2006)	31
2.4	Hypothesised relationships between work attitudes and work behaviour	36
2.5	Behaviour, attitudes and the psychological contract	40
2.6	A model of the psychological contract (employee perspective)	42
2.7	Management-espoused psychological contracts	44
2.8	Equity theory (Adams 1965)	48
2.9	'Fair pay' perceptions of Australian employees, 1995	50
3.1	A strategically aligned model of human resource management	60
3.2	Four key elements of 'best fit' strategic alignment	65
3.3	Aligning strategy, structure, culture, espoused contracts and performance requirements	71
4.1	'SMART' goals	86
4.2	Individual goal-setting instrument	87
4.3	The balanced scorecard	90
4.4	Example of an individual goal-setting instrument	91
5.1	Example of alternation ranking instrument	107
5.2	Example of a paired comparison instrument	109
5.3	Forced distribution	110
5.4	Example of a simple graphic rating scale	112
5.5	Example of a section of a mixed standards scale	113
5.6	Behavioural anchors	114
5.7	Examples of behaviourally anchored rating scales	115
5.8	Example of a section of a behavioural observation scale	117
5.9	Example of a section of a weighted checklist	118
5.10	Example of a section of a forced choice behavioural assessment instrument	120
5.11	Inadequate grade descriptors	122
5.12	Inadequate guidelines for determining overall rating	122
5.13	Assessing behavioural assessment measures	123
5.14	Performance competencies: the Spencer and Spencer 'iceberg' model (1993)	127
5.15	Analysis and modelling differentiating competencies using behaviour event interviewing	131

FIGURES AND TABLES

5.16	Section of a competency-based, behaviourally anchored rating scale for a mid-level manager role	135
6.1	A diagnostic tool for analysing individual performance deficits	141
6.2	Key features of a 'tell and sell' approach	146
6.3	Key features of a 'tell and listen' approach	147
6.4	Key features of a 'problem-solving' approach	148
6.5	Example of an action planning and performance development instrument	152
7.1	Options for base pay	165
7.2	Simple pay scale or spine	172
7.3	Narrow grades	173
7.4	From narrow grades to broad grades	174
7.5	Broad bands	175
7.6	Strategic alignment with base pay structures	176
8.1	Salary survey data presentation: range percentiles and quartiles	182
8.2	Example of salary survey data presentation format: 'senior human resources consultant' position	183
8.3	Hay Group guide chart: 'know-how'	192
8.4	Hay Group guide chart: 'problem-solving'	193
8.5	Developing job grades using points-factor scores: plotting point scores and existing pay practice line	198
8.6	Developing job grades using points-factor scores: developing a new pay policy line	198
8.7	Developing job grades using points-factor scores: establishing grade boundaries and pay ranges	199
9.1	Skills analysis: skill dimensions for an administrative support role	204
9.2	Sequential skill-based pay progression in a broad-graded structure: a 'stair-step' model for an administrative support role	205
9.3	Non-sequential skill-based pay progression in a broad-graded structure: breadth skill sets for an administrative support role	206
9.4	Competency-based pay progression in a broad-banded structure	213
9.5	Competency-based pay at Glaxo Wellcome	214
9.6	Competency-related pay progression in a broad-banded structure	215
10.1	Marketing Department structure at Flinders Bank	237
11.1	Performance-related reward options	242
11.2	The incentive and sorting effects of performance-related pay	245
12.1	Compa-ratios	257
12.2	The merit grid	258
12.3	Merit increment curves	259
12.4	Merit increments: the annuity problem	261
12.5	Merit bonuses	264
12.6	Product market context and sales commission configuration: four scenarios	274
14.1	The hypothesised relationship	298

14.2	Scanlon Plan gainsharing	300
14.3	Rucker Plan gainsharing	301
14.4	Improshare Plan gainsharing	302
14.5	Business unit multifactor goal-sharing	310
15.1	Employee attitudes and employee share ownership	324
15.2	How does a share option plan work?	331
16.1	Median annual remuneration level and composition of the CEOs of the Standard & Poors 500 firms, 1992–2011	340
16.2	Average percentage composition of total reward of Australian CEOs and other senior executives, 1990–2014	341
16.3	Black-Scholes option pricing formula	350
16.4	Share appreciation rights	351
17.1	Framework for performance and reward system development	371
17.2	Example of a performance and reward strategy statement	374
17.3	The ‘human capital management scorecard’	375
17.4	Example of a diagnostic employee attitude survey	377
17.5	Prescriptive questionnaire	378

Tables

2.1	Summary comparison of content theories of motivation	26
4.1	KRAs, KPIs and goals for a production manager role	82
5.1	Commonly applied performance competencies	128
8.1	A simple ‘policy capturing’ points-factor job evaluation instrument	189
10.1	Employee benefits: percentage of employees covered, Australia, 2013	226
12.1	Straight merit increments	255
12.2	Individual performance related reward schemes	264
12.3	Individual payment by results: standard piece rates, differential piece rates, premium bonus plans	272
12.4	Goals-based individual bonuses: simple and sliding scale plans	276
13.1	Circumstances under which non-financial rewards are offered	286
14.1	Matching collective incentives to team type	315
16.1	Long-term incentive plan types and hurdles, Australia	349
17.1	Illustrative review findings and diagnoses	379
17.2	Setting targets for total pre-tax remuneration mix in a mechanistic organisation	384
17.3	Aligning strategy, structure, culture and practice	387

■ Contributors

Professor Michelle Brown is Professor of Human Resource Management in the Department of Management and Marketing at the University of Melbourne. Her research examines the unintended consequences of human resource management policies and practices, with a particular focus on pay and performance management. Current projects investigate how immigrants fare under performance management systems, performance pay complaints, strategic reward configuration and predictors of employee pay preferences.

Catherine Dolle-Samuel is a Lecturer in remuneration and performance management at the University of New South Wales and teaches in a variety of management and human resources courses at the UNSW Business School and Macquarie University. Catherine holds a BA (Hons) in Australian history from Macquarie University (1999) and M Com (Organisation and Management) from UNSW (2007). Catherine has worked in human resource management and business continuity/crisis management both in Sydney and London. She is passionate about bridging the gap between academic theory and practitioner experience and is interested in the convergence of corporate governance, organisational sustainability and human resource management at a strategic level.

Dr Robyn Johns is a Senior Lecturer in Human Resource Management and Industrial Relations as well as the Director for Undergraduate Programs for the Management Discipline Group at the University of Technology, Sydney (UTS). She joined UTS in 2003 and has taught extensively on the domestic human resource management program and in Shanghai. Before transitioning into academia Robyn worked in corporate human resources roles and has also worked in the public health sector. Robyn's research has examined contemporary and emergent issues in the management of human resources, with particular emphasis on the labour turnover, work-life balance and occupational stress.

Associate Professor Sarah Kaine lectures in human resource management and industrial relations in the School of Management at the University of Technology, Sydney (UTS). Her research focuses on several broad themes: employee representation, the development and exercise of employee voice, the formal and informal regulation of employment relations and HRM and sustainability. Specifically Sarah is interested in innovation in employment regulation – beyond the bounds of traditional labour law, corporate social responsibility and its link to industrial relations and the role of leadership in promoting sustainability and corporate social responsibility. Prior to becoming an academic Sarah worked as an industrial relations practitioner and a consultant to not-for-profit organisations.

Dr Peter McLean is the Head of the School of Management, Operations and Marketing at the University of Wollongong. Peter holds a PhD in Management

from the University of Wollongong (2008). His current research interests centre on performance management, corporate social responsibility, employee ethical dilemmas and employee perceptions of their duty of fidelity. Other research projects explore issues of identity and sense-making in a diverse range of contexts from disability and aged care to coal mines. Peter is a Fellow of the Wollongong Academy of Tertiary Teaching and Learning Excellence and is a national teaching award winner for outstanding contributions to student learning in higher education.

Dr Andrea North-Samardzic is a Lecturer in the Department of Management at Deakin Business School. She received her PhD in Organisation and Management from the University of New South Wales in 2011. Andrea's research and teaching interests traverse several topics and disciplines. She is currently teaching postgraduate courses on leadership, as well as actively researching and developing leading edge learning technologies. Andrea's ongoing research is primarily on gender and leadership with a focus on corporate governance and board diversity.

Dr Patrick O'Leary is a Lecturer in Human Resource Management in the Federation Business School at Federation University Australia. Patrick holds a PhD in Industrial Relations from the University of New South Wales (2008). His principal areas of research and teaching include industrial relations, management-employee relations, strategic human resource management, reward and performance management, research methods and labour history. He is currently engaged in research projects in the fields of comparative labour history, neoliberalism and regional employment relations. Patrick is also the current President of the Ballarat Trades and Labour Council.

Dr Geoff Plimmer is a Senior Lecturer with Victoria University of Wellington Business School. Geoff holds a PhD in Organisational Psychology from the Victoria University of Wellington (2001). His principal areas of research and teaching include strategic human resource management, destructive workplace behaviours, performance management and reward management. He is currently researching influences on the performance of public agencies, the leadership development of senior public servants, health and safety climate and workplace well-being.

Jack Robinson works as an independent researcher. Previously, he worked for three years on research projects at Victoria University of Wellington on a range of subjects including economic development, remuneration and performance management of teachers, and tertiary education policy. His current research interests include the remuneration and performance management of executives and teachers, analysing the various social and economic implications that flow from how we pay these groups. He holds a BCom from Victoria University of Wellington.

Professor John Shields is Deputy Dean (Education) of The University of Sydney Business School and Professor of Human Resource Management and Organisational Studies in the Discipline of Work and Organisational Studies.

CONTRIBUTORS

John holds a PhD in Economic History from the University of Sydney (1990). His principal areas of research and teaching include performance management, reward management, executive remuneration and corporate governance, and business and labour history. He is currently engaged in national and international collaborative research projects in the fields of strategic reward configuration, predictors of employee pay preferences, the impact of the director human and social capital on firm financial performance, and the relationship between employee emotional intelligence, cultural value orientation and workplace well-being.