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MANAGING EMPLOYEE PERFORMANCE AND REWARD

Managing Employee Performance and Reward is the first major text to explore employee performance and reward in a conceptually integrated way. It offers students, managers and general readers alike a detailed and cohesive coverage of these two pivotal and closely connected yet controversial and challenging facets of human resource management (HRM).

The book critically examines current theory and practice in each field and provides a conceptually informed yet practical framework for analysing and addressing the myriad performance and reward issues that confront today's managers and HRM professionals. In doing so, it draws on a wide range of up-to-date research evidence drawn from a wide range of academic disciplines – from organisational psychology and strategic management to critical management studies.

Chapters addressing performance and reward basics and key themes in employee psychology and human resource strategy are followed by multi-chapter parts dealing with options for performance management practice, for structuring and managing base pay and benefits, and for configuring performance-related rewards for individual employees, work groups and executives. Each part includes a major 'hands-on' case study exercise, complete with model solutions.

Written for a global readership, the book will have particular appeal to those studying and practising people management in the Asia-Pacific region.

JOHN SHIELDS is Associate Professor in the Faculty of Economics and Business at the University of Sydney, where he teaches human resource management. His principal areas of research and publication include reward management, executive remuneration and corporate governance, and business and labour history.

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Concepts, Practices, Strategies

JOHN SHIELDS



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For Catherine, Erin and Julia.
They know why, only too well.

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FOREWORD

The design and management of remuneration programs in organisations of varying scale and style have become extremely complex. The influences include prevailing economic conditions, the perceptions of society, competition for scarce skills and changing theories and fashions in the marketplace. The relationships between these often conflicting elements can be confusing and, for many organisations, threatening.

In this book, John Shields teases out the principal frameworks and objectives of remuneration policy, the challenges that organisations face in the context of contemporary theories of remuneration structuring and the alignment to performance. He identifies how they fit into the overall process and how changes at one level affect the process at other levels. This he does with careful and comprehensive referencing of the sources of his proposals and by offering guidance towards understanding the prevailing practices. Useful comparisons are drawn between Australian and overseas practice, particularly that of the United States.

Unlike much that is currently written in this area, this book treats remuneration of executives as part of the overall reward pattern of the whole organisation, addressing the motivational and organisational challenges in formulating pay structures that can apply to individual entities, business groups and teams within them. It provides valuable insights into the effect of different incentive plans when used in concert and how these effects can be used or guarded against depending on prevailing circumstances.

The book addresses the following essential information:

- a clear analysis of the scope of remuneration theory
- useful research findings on market practice in the area
- a structure for the design of remuneration programs in widely differing circumstances.

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This book is therefore very helpful for students, as it offers a comprehensive theoretical structure thoroughly referenced to a very detailed and rapidly changing body of knowledge, while demonstrating the basic elements contrasted with the distractions supplied by the highly publicised changes of fad and fashion in remuneration structuring.

On the other hand, while the book is not intended to be a practitioner's primer, it provides management and professionals with a sound foundation for the analysis of existing policies and the basis for developing new proposals. It is refreshing that the author compares the prevailing theoretical approaches to remuneration management and provides helpful syntheses of theories that more readily reflect the decision-making dilemmas faced by many managers. It also offers useful sources of reference for more comprehensive consideration of these complex issues.

These insights are particularly useful in the current governance climate. Because of the intense media attention to the remuneration of CEOs and other executives, and the increasing disclosure requirements under legislation, scrutiny of remuneration is widespread. This can place managers, directors and their advisers in an awkward position. The book provides refreshing insights that offer a framework for developing a contemporary viewpoint.

For many decades, executives were proud to work for an agreed annual remuneration. They were expected to provide their best level of performance on the basis of that payment. Payment on the basis of performance was limited to sales staff and agents. Current discourse on remuneration no longer canvasses whether or not executives should have some remuneration at risk; that is taken for granted. This does not acknowledge that organisations may need a range of executive types – some intrepid risk-takers and some more cautious, who are charged with the conservation and protection of company assets.

John Shields' analysis of incentives and performance management provides the background for a clear-minded assessment of a whole range of employer challenges in addressing this vexed issue unencumbered by the influences of current fashion and market pressures. In a period of such fast change, this guidance should be most useful.

From time to time, in most specialities, it is necessary to record the current state of development in the elements being considered. This book is most timely in providing that service for the study of performance and reward management. With comprehensive and contemporary references

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and evidence supporting its propositions and conclusions, this book will provide the basis for a fruitful and ongoing dialogue between academe and management practitioners on performance and reward matters for many years to come.

John V. Egan
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Adjunct Professor, Faculty of Economics and Business,
University of Sydney

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ACKNOWLEDGEMENTS

Evidently, at his peak, Charles Dickens managed to knock out a book chapter a day, armed only with quill and ink, midnight oil, a marvellous eye for the human condition, and varying quantities of the demon drink. Even in the era of the word processor, authorial output of this quantity and quality is something to which we lesser mortals can only aspire. In one sense, perhaps novelists have an easier task, since they are unencumbered by the burden of facts, figures and footnotes and limited only by the power of their imagination. An academic monograph, however, entails an altogether different purpose and a quite different type of intellectual and emotional journey. In some ways, it is perhaps a more onerous and exacting challenge than that faced by novelists – at least, this has been my experience. Almost a decade has passed since this book was first mooted. In truth, it has been a long, demanding and constantly evolving task. The final product is very different from that first envisaged; and the writer is also a very different person from the one who began the journey all those years ago. However, its writing has also been an immensely rewarding experience – and my abiding hope is that readers will also find the book worthy of its set brief: an integrated examination of the theory and practice of employee performance and reward management.

Texts of this type necessarily have a long gestation; they are also a collective intellectual exercise – and my indebtedness to others is thus inestimable. But let me try to tally the debt nevertheless. My first thanks goes to those who, in their own utterly different ways, first awakened my interest in the matter of employee reward more than a decade ago: Edward Lawler, George Milkovich, Barry Gerhart, Michael Armstrong and Ian Kessler, and, closer to home, David Plowman, Braham Dabschek, Michael Quinlan, Chris Wright, Robin Kramar and John Egan, as well as the remarkable Australian worker–intellectual, the late Jack Hutson. Then there are those who encouraged me

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to take my neophyte interest further, and to sharpen my conceptual take on the strategic and behavioural dimensions of reward management, none more so than my Canadian friend and mentor, Rick Long. Along the way, my horizons were also broadened by practitioners with a wealth of knowledge in the field, including the doyen of Australian remuneration advisers, John Egan, and the practitioner members of the Australian Human Resources Institute.

This is also a text crafted in the cut and thrust of the classroom. The ideas, the arguments, the interpretations have all had to run the gauntlet of student scrutiny and, in a very real sense, the book is testimony to the dialogue and debate that I have been privileged to enjoy with the students in my human resource management units since the mid-1990s. Some, like my friend and sometime colleague Ben Jelden, have artfully turned the tables, becoming the teacher rather than the taught. Special thanks are also due to Alex Capezio, Vera Lim and my other doctoral students, past and present, for their critical but constructive contribution to my chapter drafts and for awaiting the return of their own chapter drafts with such patience and good humour.

Book-writing, of necessity, is also a most solitary activity and, as such, there is a further debt that I know I shall never be able to repay – that to my family. They have been my rock, even as the months rolled into years, and the magic and laughter of childhood yielded to the exhilaration and promise of youth. They have lost a year of Sundays to this cause – but, to my relief and delight, they have stayed the course.

My thanks, too, to the Australian staff of Cambridge University Press, past and present, for their forbearance and encouragement. To Glen Sheldon, in particular, I own a deep debt of gratitude for showing faith in the project – and in this most troublesome author. I am also eternally grateful for having had the benefit of Cathryn Game's exceptional editing skills. I am in awe of her powers of literary concentration and, more to the point, her ability to conjure up a silk purse from a sow's ear.

Finally, I must thank those organisations that have kindly granted me permission to reproduce their material in the text: the Hay Group Australia, CSi – the Remuneration Specialists Pty Ltd and Egan Associates.