Implementations of rewards systems in large companies with seat in the Czech Republic

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Abstract: This paper presents results of our empirical research (survey), which was conducted among large profit-oriented companies with seat in the Czech Republic and is focused on total rewards approach, job evaluation, types of rewards and on rewards for performance.

Our survey exposed that our respondents implement majority of important properties that are typical for total rewards approach. An exception is cafeteria system and respecting of demographical structure of workforce, which are only weakly utilized. Some minor problems were identified also in the area of improving of remuneration system (system dynamics).

As for job evaluation, analytical schemes and market pricing are used by a similar percentage of respondents. On the other hand, majority of our respondents (73 percent) at least strive to find out market value of relevant jobs. In case of internally oriented schemes, we were a bit surprised by high percentage of respondents, who use only insufficient, imprecise data.

Finally, as for rewards for performance, we found out that these rewards are used very intensively by our respondents. Short-term rewards (awarded on the basis of performance measurement within a period up to one year) are used by 81 percent of our respondents and long-term rewards (awarded on the basis of performance measurement within a period longer than one year) are used by 48 percent of respondents.

Key words: total rewards approach · job evaluation · types of rewards · rewards for performance · performance management

JEL Classification: M52

1 Introduction

The main purpose of this paper is to provide principal results of our empirical research into implementations of rewards systems in large companies with seat in the Czech Republic. The first level of our research was focused on areas like total rewards approach (hereafter abbreviated as TRA), job evaluation schemes and types of rewards. Especially we tried to uncover an extent to which are implemented various properties of TRA, which job evaluation schemes prevail, which types of rewards are used and how intensive is utilization of rewards for performance. At a more detailed level was our research aimed mostly at specific issues connected with rewards for performance, nevertheless in this paper we concentrate on results of the first level of our analysis.

As for TRA, it is possible to say that according to our opinion this approach may (if implemented in a sufficient degree) provide a serious competitive advantage. Therefore we tried to find out to which degree is TRA implemented by our respondents. Within our research we also paid special attention to the issue of job evaluation because literature often emphasizes the importance of job evaluation for the overall quality of rewards systems (see chapter 2.3). In particular we tried to find out which approach to job evaluation (market pricing, analytical job evaluation, non-analytical job evaluation or their combination) is preferred among our respondents. Because companies nowadays often strive to implement high performance approach, it is possible to hypothesize that market pricing would be a preferred scheme.

Finally, to the best of our knowledge, the majority of up-to-date literature on rewarding reported an intensive utilization of rewards for performance in practice, e.g. report (WorldatWork & Vivient Consulting, 2012) concluded...
that short-time incentives were in 2011 used by 95 percent of companies and long-term incentives by 61 percent of companies. We decided to find out whether high penetration of rewards for performance exists also among our respondents.

2 Methods and literature review

2.1 Total rewards approach

Total rewards approach (TRA) integrates various types of rewards into coherent whole (Armstrong, 2010, p. 40) and because different people are motivated by different motivational factors (Havlíček, 2011, p. 186), TRA seems to be a useful tool for improving the motivation of workforce. It is possible to find several comprehensive TRA models in books, e.g. WorldatWork (2007), Zingheim and Schuster (2000), (Armstrong, 2010). We also utilized numerous articles, especially (O’Neal, 1998), (Sanders, 2001), (Simmons, 2002), (Lyons & Ben-Ora, 2002), (Gross & Friedman, 2004), (Kantor & Kao, 2004), (Sejen, 2006), (Zingheim & Schuster, 2006), (Kaplan, 2007), (Gross, Bundy, & Johnson, 2011), (Lovewell, 2011) and (Kwon & Hein, 2013).

Although different TRA models stress distinct desirable properties, there are also important similarities. We tried to identify the features that are often mentioned in these models and thus can be considered to be in a core of total rewards approach. It is above the scope of this paper to give detailed list of these properties, nevertheless we can sum up that in the center of TRA are features like compatibility of rewards strategy and rewards system with the overall company’s strategy, external competitiveness of rewards system, integrated utilization of various types of rewards, sufficient communication of rewards with workforce, high-quality job descriptions including valuation of jobs, existence of high quality grade and pay structure, internal equity (work of equal value should be equally rewarded) and sharp differentiation top-performers from low and average performers. Literature on TRA also often suggests taking into account demographic structure of workforce and utilizing cafeteria system. Of extreme importance is existence of procedures for continuous improvement of rewards system, which should utilize measures like employee turnover and results of surveys and interviews with workforce.

2.2 Types of rewards

Terminology of individual researchers and practitioners is in the field of rewards very diverse. This significantly complicates conducting survey research and decreases its reliability. In order to maximally reduce negative impact of terminological diversity we decided to prepare a simple, unambiguous, but comprehensive classification of rewards and utilized this classification in our research.

At the basic level we distinguished non-financial rewards and compensation (i.e. financial rewards). Consequently we classified non-financial rewards into categories like benefits, perks, work-life balance programs, non-financial recognition, transferable skills training, promotions and other non-financial rewards. Compensation was further divided into a fixed one (i.e. base pay) and variable one. Moreover in case of financial rewards it is important to distinguish rewards paid in cash and rewards in other forms, e.g. shares, options etc. For all types of rewards we distinguished performance-based rewards from other rewards.

From the viewpoint of rewards for performance we would like to make at least two additional remarks. Firstly, extremely important type of non-financial incentives in relation to performance are promotions. This kind of reward usually brings not only financial benefits, but also increase in prestige etc. and was addressed e.g. in (Baker, Jensen, & Murphy, 1988, p. 599-605) and in Gibbs (2008). Secondly, it is important to differentiate between short-term variable financial rewards for performance (which are granted on the basis of performance measurement within a period up to one year and include e.g. annual profit-sharing schemes and piece-rates) and long-term variable financial rewards for performance (which are granted on the basis of performance measurement within a period longer than one year). Last but not least, length of the period of measurement should not be mixed up with intended impact of rewards. Even short-term rewards (especially in the form of shares or share options) may have a positive impact on long-term behavior.

2.3 Job evaluation schemes

It is basically possible to distinguish internally and externally oriented schemes (Armstrong, 2010, p. 236-263) and combined approach is also possible. Internally oriented schemes include analytical (which break whole jobs into a number of elements and then compare jobs element by element) and non-analytical schemes (which compare whole jobs and place them in a grade or rank). Externally oriented scheme is represented by market pricing, which is based on obtaining information on market rates of jobs (Armstrong, 2010, p. 245). While internally oriented schemes increase feeling of equity and also trust and commitment in the workplace, market-oriented schemes lead to more externally competitive remuneration system. Especially very formal and analytical job evaluation schemes may be incompatible with high performance approach, see e.g. (McNabb & Whitfield, 2001).
2.4 Framework for analysis of rewards for performance

On the basis of an extensive literature review we developed a framework for analysis of rewards for performance which has a form of several interrelated questions (decisions) and is shortly described in the following paragraphs. Framework was inspired by Beel (2007), but developed into substantially adjusted and enhanced model.

Firstly, it is necessary to decide whether rewards for performance should be used or not. Although majority of researchers supports or at least do not refuse rewards for performance, there are exceptions. Important and often ambiguous findings on impact of rewards for performance on motivation can be found in psychologically oriented literature, for example in (Cameron, Banko, & Pierce, 2001), (Deci & Ryan, 1985) and (Gagne & Deci, 2005).

Secondly, decision on optimal number of programs of rewards for performance should be made and eligibility of various groups of workforce (e.g. top management, middle management, line management, sales staff etc.) to participate in these programs should be set. Thirdly, it is necessary to decide about types of rewards for performance and we addressed this problem in chapter 2.2. Fourthly, frequency and timing of payments (immediate or deferred) has to be decided. On the one hand, immediate rewards are usually preferred by employees. On the other hand, deferred rewards may positively influence long-term behavior. Fifthly, it is necessary to decide which performance measures should be used for determination of the amount of reward and how these measures should be evaluated. This decision is especially complicated and can be divided into several components (sub-questions), which relate to: types of measures (financial, non-financial, combined); optimal number of measures; level of measurement (company-wide measures, group measures, measures of individual performance) and relations between these levels; frequency of evaluation and type of performance standard (relative or absolute); level of subjectivity in measurement, see e.g. (Gibbs, Merchant, Van der Stede, & Vargus, 2004); time horizon for which is performance evaluated (short-time or long-time rewards; this partially overlaps with decision on types of rewards). Lastly, optimal relative importance of rewards for performance has to be set; e.g. according to (Pouliakas (2010) job utility rises only in response to generous bonuses.

2.5 Design and distribution of the questionnaire

Our research was conducted with help of an extensive web-based questionnaire. For preparation of this questionnaire we besides large body of literature, which was briefly and selectively mentioned in chapters 2.1 - 2.4, utilized also experiences from our previous research (Autor1, Autor2, Autor3, 2013).

The questionnaire contained 69 questions and to reduce the amount of questions displayed to respondents, flow control was implemented. Every respondent therefore saw only questions relevant for them. Various types of questions were included, e.g. dichotomous questions, multiple choice questions, open questions, and numerous questions were answered using a 7-point Likert scale. After section dedicated to gathering information on basic characteristics (number of full-time employees, industry, unionization, decision-making authority, life-cycle phase, legal form etc.) we addressed degree of utilization of TRA by asking our respondents about the extent to which are present some properties typical for this approach. In total we used 15 properties and respondents were asked both whether their system had these properties and which of these properties are according to their opinion desirable. Next part of the questionnaire was dedicated to the methods used for job evaluation. Consequently were respondents asked about implemented types of non-financial rewards. For these rewards we examined which groups (categories) of workforce (in our questionnaire we were distinguishing 13 groups) are eligible to obtain them and under which conditions (e.g. based on a positive performance appraisal or because of standard fulfilling of assigned tasks). Next section was aimed at fixed compensation, i.e. base wage and in particular we addressed reasons for its increases and whether top-performers obtain substantially higher increases of base wage than average performers. Consequently we examined variable financial rewards, which we divided to rewards independent on performance and dependent on performance and both types were investigated in detail; separate part of our questionnaire was dedicated to short-term variable rewards and the other part dealt with long-term rewards. Also in case of financial rewards we were distinguishing between mentioned groups (categories) of workforce. Finally, we asked respondents about overall satisfaction with their rewards system from the viewpoint of its ability to attract motivate and retain skilled employees.

We decided to contact all companies with their seat in the Czech Republic and number of full-time employees over 250. By the term “company” we understood for-profit organizations dealing with production and trade of goods and services. Other organizations (e.g. organizations in financial sector, non-profit organizations, universities etc.) were not contacted. We used Albertina database and after application of the mentioned criteria we ended up with 1362 companies. At the end of July, 2013 we sent an e-mail with a link to our web-based survey and information about our research project to all these companies and after 20 days we sent a reminder to increase our response rate. The questionnaire was usually filled-in by HR manager or by compensation specialist.
3 Research results

3.1 Response rate and characteristics of our respondents

In total, our survey started by 426 companies, finished by 98 companies and after elimination of unusable responses we got 80 responses. Response rate counted from the started surveys was 18.78 percent. Response rate counted from the number of emails that were sent was 5.87 percent. On the basis of obtained responses we computed basic characteristics of our respondents and results regarding the number of full-time employees can be found in Table 1.

Table 1 Number of full-time employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean</th>
<th>Median</th>
<th>Min</th>
<th>Max</th>
<th>Std. dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>129.14</td>
<td>454.50</td>
<td>175.26</td>
<td>23 980</td>
<td>2 967.62</td>
</tr>
<tr>
<td>2012</td>
<td>122.71</td>
<td>445.00</td>
<td>200.00</td>
<td>24 481</td>
<td>2 997.10</td>
</tr>
</tbody>
</table>

Source: Own processing

3.2 Total rewards approach

Based on literature review we identified crucial properties of rewards systems and asked respondents to indicate to which extent they agree that their system has a given property and whether they consider a given property to be desirable. We asked respondents to express their answers on a Likert scale from 1 to 7, where 1 meant the lowest degree of agreement (the lowest presence of a given property) and 7 the highest degree of agreement (the highest presence of a given property). It is above the scope of this paper to give a detailed overview of these properties and responses. We mention only selected properties which are weakly implemented in companies, specifically properties with median 4 or lower.

Table 2 Properties typical for TRA with median value equal to 4 or lower

<table>
<thead>
<tr>
<th>Property</th>
<th>Our system has a given property</th>
<th>N</th>
<th>Given property is desirable</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>workforce has a possibility to choose from different types of rewards (cafeteria system)</td>
<td>2.66 2.0 1.85</td>
<td>77</td>
<td>3.89 4.00 1.68</td>
<td>72</td>
</tr>
<tr>
<td>selection of the types of rewards takes into account demographic structure of workforce</td>
<td>3.59 3.5 1.83</td>
<td>74</td>
<td>4.00 4.00 1.84</td>
<td>70</td>
</tr>
<tr>
<td>based on the evaluation are taken appropriate actions to improve the remuneration system</td>
<td>4.43 4.00 1.74</td>
<td>77</td>
<td>5.51 6.00 1.25</td>
<td>71</td>
</tr>
</tbody>
</table>

Source: Own processing

We can sum up that our respondents use TRA and majority of the important properties were sufficiently implemented, only properties listed in Table 2 had median equal or lower than 4. Moreover two properties with the lowest median were also considered to be not very desirable by our respondents. Worrying is low average and median of the property related to improving of rewards system as this may indicate future problems.

3.3 Job evaluation schemes

Firstly, we asked our respondents about schemes that they use for evaluation of jobs and results can be found in Table 3.

Table 3 Schemes used for job evaluation

<table>
<thead>
<tr>
<th>Method</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>market pricing</td>
<td>39</td>
<td>50</td>
</tr>
<tr>
<td>analytical job evaluation</td>
<td>42</td>
<td>54</td>
</tr>
<tr>
<td>non-analytical job evaluation</td>
<td>23</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Own processing

In-detail analysis of individual responses showed that only one scheme was used by 56 respondents, concurrent use of two schemes was utilized by 18 respondents and all three schemes were concurrently used by 4 respondents. All 18 respondents who indicated concurrent use a combination of two methods also always responded that they used market pricing; combination of market pricing and some other scheme was therefore used by 22 respondents. Regardless of used job evaluation scheme we asked respondents whether they try to find out market value of jobs and 58 companies (73 percent) answered positively. Of 39 respondents who used market pricing, 3 used for comparison of jobs only job title, 18 used “brief description of duties and level of responsibility”, 7 used “compressed job description” and 11 used “uniform approach to the jobs classification”. This result is quite surprising because first two methods are very imprecise (e.g. same name may be used for very different jobs) and thus 21 (i.e. 52 percent) of respondents use for market-based job evaluation insufficient data.
3.4 Types of rewards and utilization of rewards for performance

In this chapter are presented results related to the used types of non-financial and financial rewards in companies of our respondents. In a more detailed level of analysis we were also investigating which of these rewards are awarded to the individual categories of workforce, which rewards are awarded just for standard fulfilling of job duties and which are awarded based on positive evaluation of performance, but we do not present these detailed results in this paper.

**Table 4** Types of non-financial rewards

<table>
<thead>
<tr>
<th>Type of non-financial reward</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>perquisites (e.g. the possibility of using a laptop for private purposes)</td>
<td>72</td>
<td>90</td>
</tr>
<tr>
<td>training of transferable skills</td>
<td>72</td>
<td>90</td>
</tr>
<tr>
<td>benefits (recreation, various insurance, etc.)</td>
<td>66</td>
<td>83</td>
</tr>
<tr>
<td>non-financial recognition (e.g. praise from superiors)</td>
<td>59</td>
<td>74</td>
</tr>
<tr>
<td>procedure in the corporate hierarchy (promotion)</td>
<td>58</td>
<td>73</td>
</tr>
<tr>
<td>work-life balance programs</td>
<td>53</td>
<td>66</td>
</tr>
<tr>
<td>other non-financial rewards (e.g. leadership)</td>
<td>27</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Own processing

It is possible to sum up that our respondents intensively use various non-financial rewards and this is very positive finding. High utilization of training is especially positive because it increases skills of workforce.

Consequently we were examining various questions about base salary and here we would like to highlight one surprising finding. In literature it is usually suggested to reward results with variable pay and to be very cautious about increasing base pay because of performance. For all 13 categories of workforce majority of respondents indicated that evaluation of individual performance is relevant for increase in base salary. For CEO it was in case of 75 percent of respondents and for other managerial positions (top-management, middle-management, lower management) always above 88 percent of respondents.

Finally, we addressed utilization of variable financial rewards. An overview of results can be found in Table 5.

**Table 5** Types of variable financial rewards

<table>
<thead>
<tr>
<th>Type of variable financial reward</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>rewards for success in performing a specific task</td>
<td>66</td>
<td>84</td>
</tr>
<tr>
<td>short-term variable financial rewards for performance</td>
<td>64</td>
<td>81</td>
</tr>
<tr>
<td>financial recognition (spot bonus)</td>
<td>40</td>
<td>51</td>
</tr>
<tr>
<td>long-term variable financial rewards for performance</td>
<td>38</td>
<td>48</td>
</tr>
<tr>
<td>one-time reward for achieving of certain qualification/skills</td>
<td>26</td>
<td>33</td>
</tr>
<tr>
<td>bonuses regardless of performance (e.g. retention bonus)</td>
<td>17</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Own processing

We can see that the most popular variable financial rewards are “rewards for success in performing a specific task” and “short-term variable financial rewards for performance”. In comparison with results of survey by WorldatWork and Vivient Consulting (2012) we can say that among our respondents was both utilization of short-term variable financial rewards for performance and long-term variable financial rewards for performance lower than in the mentioned survey in year 2011, but still, these rewards are used by a significant proportion of companies. Moreover we were asking about trends and majority of respondents indicated that they do not plan change the share of workforce eligible to obtain rewards for performance in the total number of workforce (this goes both for short-term and long-term rewards).

3.5 Short-term and long-term variable financial rewards for performance

Although we do not analyze detailed results of our research in this paper, we would like to provide at least two interesting findings about short-term and long-term variable financial rewards for performance. Firstly, short-term rewards are among our respondents paid nearly exclusively in cash and the same goes for long-term rewards. In international comparison it is relatively untypical and a risk of short-term orientation of managers rises. Secondly, important observation is related to the typical number of measures used for calculation of reward. As for short-term variable rewards for performance, our results indicated that the most often is used between 2-5 measures, no one of our respondents uses more than 10 measures and these findings are in accord with suggestions usually given in literature. As for long-term variable rewards for performance, we got very similar results; again 2-5 measures is by far the most often used number of measures.

3.6 Overall satisfaction with rewards system

In the end of our questionnaire we asked our respondents to subjectively evaluate to which degree they are satisfied with their rewards system from the viewpoint of its ability to attract, motivate and retain skilled employees. Answers were expressed on a seven-point Likert scale from 1 for the lowest satisfaction to 7 for the highest satisfaction. Mean
value of responses was 4.94, standard deviation was 1.09 and median value was 5. We also calculated an average index of total rewards utilization as arithmetic mean of responses to all questions about properties of the implemented rewards system and the result was 4.84, which is in accordance with subjectively expressed average satisfaction.

4 Conclusions

In chapter dedicated to the literature review and methods was given an overview of literature on total rewards approach, job evaluation schemes, types of rewards and rewards for performance. Last but not least we provided a classification of rewards and a framework for analysis of rewards for performance, which we developed in our previous research. Consequently we explained how our questionnaire was prepared, structured and distributed.

It is possible to conclude that according to our findings, our respondents quite successfully implement total rewards approach. A bit underestimated are areas like respecting demographic structure of workforce and utilizing cafeteria system, which are both weakly implemented and considered unimportant. Another possible problem is in the area of improving rewards system. For job evaluation are mainly used market-based scheme (used by 50 percent of companies) and analytical job evaluation (used by 54 percent of companies).

In the area of rewards for performance, our respondents intensively use rewards for performance, specifically 81 percent of our respondents use short-term variable financial rewards for performance and 48 percent of respondents use long-term variable financial rewards for performance. Majority of companies declared intention to left proportion of employees eligible to obtain rewards for performance in the total number of employees without change.

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Autor1, Autor2, Autor3 (2013)


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