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HUMAN RESOURCE MANAGEMENT

ASSESSMENT 2

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ABSTRACT

While companies try to survive and grow in a challenging environment of competition, uncertainty and financial instability, the human resources play a crucial role. It is therefore important for a company to understand what inspires its employees and create a suitable reward system. In this report, with the case of Hanoi Hat company there is an effort to outline contemporary reward practices in relation with employee engagement. In conclusion, argues the importance of adopting reward methods for the business development.

1. INTRODUCTION

In the current fluid, uncertain and volatile business environment, a wide and powerful range of forces associated with technological change, economic crisis, maturation of regulations and sociocultural movements, lead the resourcing strategies that need to be adopted by the HR departments. The main concern of businesses is to gain competitive advantage so that they both survive and expand. The existence of organizations relies on the effectiveness and fulfillment of their human resources (Bratton & Gold, 2017). It is widely accepted that the human resources of a business are the most important success factor because people judge, challenge, communicate and collaborate. It is therefore vital for a business to comprehend employee incentives and design a suitable reward system. The term 'rewards' describes the direct and indirect financial or other benefits that the employee receives in return for its contribution and value to the company (Henderson, 2017). Nowadays, modern people lead more complex and uncertain lives. Hence, they have different demands and anticipations from their boss, as well as different opinions about the best rewards. An unsuitable reward package can have limited results and unstable outcomes for the business. Human resources departments or specialists are responsible to assess and recommend the most appropriate reward approach to stimulate employees (Heery, 1996).

This report focuses on the rewards practices in a Vietnamese hats and caps company, the Hanoi Hat Company that need to be implemented to increase employee engagement under the current circumstances. In addition, the importance of implementing these rewards is highlighted with regards to the competitive advantage and value that could provide.

2. CONTEMPORARY REWARD PRACTICES & SYSTEMS

2.1 Background information

The reward practices are defined as the set of principles that govern an organization's attitude towards certain critical issues related to compensation. The rewards are the main income source for personnel and for the owner both an expenditure and a defining element of the business productivity. In fact, employee performance varies to an extent on the quality and quantity of the rewards (CIPD, 2020). According to Henderson (2017) 'Reward is a broad construct that can include anything an employee may value and desire that an employer is able or willing to offer in exchange for employee contribution'. For many years, the rewards policy has been a constant and straightforward process, considered as a fixed cost for businesses even though it should be regarded as investment. Rewards now depend on both the obligations that go along with a position, and the experience of the employee (Heery, 1996). According to a study by CIPD (2019), 44% of organizations are currently implementing some type of variable rewards for their employees. The main reasons that have led to significant changes in employee's incentives are the technology evolution, international competition, the internationalization of companies, acquisitions, and mergers (Ledford, 2014). Overall, the rewards practices should be in agreement with the company's principles and reinforce the business strategy. More specifically, the reward policies deal with (Armstrong & Taylor, 2020):

- the level of incentives.
- exterior competitiveness.
- employing work assessment.
- attaining equal incentives.
- the reasoning for providing incentives in relation with experience, skill set and competencies.
- transparency and disclosure of procedural information for the staff.
- the assimilation of new practices by the staff.

There are several principles that shape the rewards framework (Hope & Fraser, 2003):

- should be centered around a varying performance agreement.
- assess productivity, depending on specific milestones, and previous periods.
- use simple and transparent means of measuring performance.

- align rewards with strategic objectives.
- be fair and inclusive.

2.2 Reward systems

In literature rewards are divided in (Herzberg, 1966):

- The internal and external rewards.
- The financial and non-financial rewards.

Internal rewards are immaterial. They are innate, acquired and sculpted by the stimulations in which a person is receptive from his environment and profession. These rewards create a sense of satisfaction that goes with the accomplishment of an assignment and are associated with the concept of competence and self-fulfillment. The rewards offered to staff for completing a task and for an achievement are called external. They can be either monetary or non-monetary, and they do not necessarily cover the social needs of the person. External rewards are secure employment, salary, other additional benefits, etc. The monetary rewards consist of three main categories (Bailey , et al., 2018): i) The direct or fixed salary for each employee for its contribution for a specific time ii) The variable rewards which are related to its performance. iii) The other benefits offered to employees due to legislation e.g., holiday allowance, health insurance, commuting. In more detail, these are:

Fixed salary, the amount arises from the nature of the job (qualifications, experience, duties) and the market elements while considering several limitations.

Piece-rate pay, employees receive a specific fee depending on the units produced.

Hour-rate pay, this program is similar to the pay per piece but here the calculation is done in units of time in which the task must be completed. It is more suitable for non-repetitive long-term tasks.

Individual or group bonus, works in addition to the salary and is related to achieving a personal or collective goal.

Merit pay, is the annual increase associated with the employee's performance during the previous year.

Commission, the salary is topped up with a percentage of the sales.

Gain sharing, the profits of the company are being shared (in equal parts or contribution based).

Stock sharing is based on the participation of employees in the ownership of the company. It is done with distribution of shares either free or in lower prices.

2.3 Current situation in Hanoi Hat Company

The Hanoi Hat company are paying their employees on a piece-rate basis, meaning that the cutters are paid a fixed rate for each unit of hats they produce. This system is one of the oldest reward systems and the most common individual rewards in manual labor. This system has several advantages, as the employees have built the necessary skills to produce indefinite numbers of the basic model. The principles around the piece-rate salary are overall objective and fair. On the plus side, it includes the ease in which wages can be measured by the administration. On the downside, there is no guarantee or salary stability, whereas the working hours are usually neglected (Ledford, 2014). Most likely, the company has adopted this system to monitor the labor cost. The company was presented with an opportunity, a new contract with athletic wear, to produce limited hat models for special events. The main issue amongst the Hanoi Hat cutters was the need to quickly re-adjust their skills and work in a different way. As a result, they were not as efficient as they used to be, probably slower in production than before, which was reflected in their income. Hence, this led to disappointment, tension and upheaval between the workforce and the management.

3. TOTAL REWARD STRATEGY

As a contemporary reward practice, the total rewards are increasingly implemented by business leaders. The total rewards strategy term was used to define an incentive strategy that mixes training and career advancement with other features of the work environment (Armstrong & Taylor, 2020). It comprises of rewards from all categories (inter/external) and in particular the fixed salary, variable salaries, pension contributions, sick allowance, medical care, holiday, company car, stock distribution, etc. All of these are interrelated and treated as a comprehensive package (CIPD, 2019; Hope & Fraser, 2003). In general, people need inspiration and are not working just for money; they want to add value in a business that will elevate their ambitions and focus in their progress. A comprehensive reward system aims to attract and motivate capable employees by all possible means.

Under the circumstances, the Hanoi Hat company had to resolve employee dissatisfaction and reverse the negative working environment. Therefore, the option was to introduce the

total reward strategy, as an umbrella, to improve employee engagement. In more detail, this comprehensive reward would include a fixed salary to the entire workforce. Salary is a fixed amount of compensation paid to the employee by the employer in exchange for the work performed. It is usually paid at fixed intervals (monthly, weekly). For example, monthly payments of one-twelfth of the annual salary. In this way, the cutters will be provided with financial security, regardless of the number of new models produced. The salary will be determined by a contract which will list all the terms, their rights, and obligations of both parties. Salaries will be recorded in payroll accounts and will be visible to everyone (Bratton & Gold, 2017).

In addition, it was decided to introduce individual and team bonuses, after the completion of the project. The bonus is an additional financial benefit on top of the salary and is related with the achievement of a goal. It has the advantage of providing a higher income, if they produce more hat units, while they have a secure monthly salary (CIPD, 2020). Bonuses seem to motivate employees, while enhancing professional satisfaction. It also acts as an incentive and prerequisite for employees to receive job training to upgrading their skills while helping company's production. These are usually received once, as a chunk, and seems to be regarded as a more positive move than a small pay rise. They receive them once, as a sum, and seem to make the employee feel that he is receiving more money than with a small pay rise. These are easy to organize and manage, since they are structurally flexible and do not require a lot of bureaucracy (Dessler, 2016). Moreover, a supplementary group bonus was suggested to be equally distributed amongst the team, if they succeeded in completing the hat orders before specific deadlines. It is important to avoid dissatisfaction issues that may arise between the cutters that feel contributing more than others.

Finally, most companies offer in addition to fixed salaries and/or bonuses, some additional benefits. These are provided with the ultimate goal of enhancing employee's commitment. To choose which additional benefits can and will be offered to the Hanoi Hat cutters, the managers should initially examine which of them are desirable and considered beneficial. There are many types of additional benefits that could be implemented here (CIPD, 2020):

- Financial support, such as low interest rates loans.
- Discounts on company goods or services.
- Life and medical insurance.

- Travel and entertainment expenses (commuting bus).
- Restaurant discounts in local area.
- Training opportunities, such as covering the cost and leave for career development.
- Family services, such as provision for daycare or meals discount.
- Social events and theater tickets.

4. REWARD PRACTICES & ADDED VALUE TO THE BUSINESS

The General Manager of Hanoi Hat company will need to discuss and elaborate his thoughts on how the total reward system can add value to their business. To convince the line managers he should structure his arguments around the following aspects.

The total rewards strategy endorses the argument that incentives should reinforce the overall strategy of an organization. A predominant step in this system is for employers to set specific, measurable, achievable and time specific goals and communicate realistic rewards (Locke & Latham, 1991). The most important advantages that arise from the total reward system from the employee's perspective are (Armstrong & Taylor, 2020; Torrington et al., 2014):

- i. Defines a 'crystal' clear connection between money and performance.
- ii. Promotes professional behavior by all staff.
- iii. Creates a results-oriented culture.
- iv. Contributes into keeping the most efficient employees, who feel valued and acknowledged for their achievements.
- v. Motivates the workforce to maximize its performance.
- vi. Improve working relationships.
- vii. Flexibility in responding to individual needs.
- viii. Financial security.

As stated, multiple times, human resources are the most valuable part of the business. Attracting and retaining qualified and competent employees is crucial to the success of a business and for this reason, it is essential that employees remain satisfied. A well-designed reward system, easy to manage and reachable for employees can be used to motivate them to put in more effort in their job (Henderson, 2017). Consequently, it leads to an increase in efficiency without changes in the existing number of workforce. Incentives for achieving short term goals are mainly the individual and team bonuses. Overall, the

total reward system and its structural elements may affect the satisfaction of the employees and consequently the organization itself (CIPD, 2020).

According to Maslow's theory (1954), if the employees satisfy their needs at a survival level by securing their income, they will move to next level of safety (job security, safe working conditions, pension scheme) (Figure 1). Then they will seek to cover their social needs of feeling part of a team while moving towards self-realization. So, if the company manages to meet all these needs of the employee at the organizational level then it will have achieved the desired result; motivation and engagement.

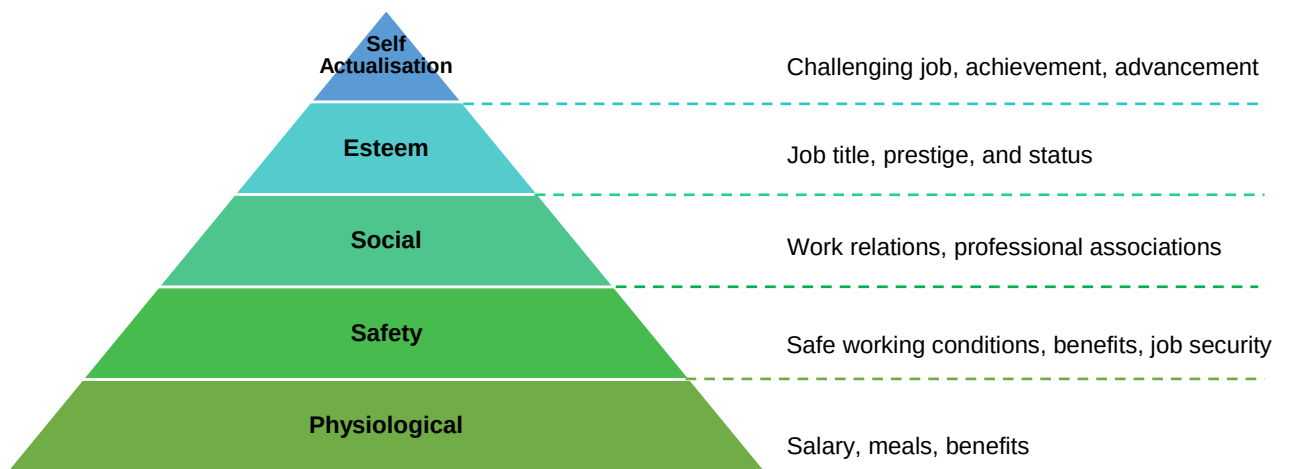


Figure 1: Maslow's' hierarchy of needs in relation with employment (adapted from Maslow, 1970).

Furthermore, the effective rewards system aims to safeguard internal and external 'justice'. 'Internal justice' refers to the fact that qualified employees are paid what they deserve. 'External justice' refers to the balance between salary policy and how similar positions are valued in the labor market (Werther & Davis, 1995). Therefore, it is necessary and recommended to hire a human resources specialist, to manage all the implications. Briefly, the benefits that the company can obtain from a competitive total rewards strategy are:

- i. Acquisition of qualified employees. The payment must be such to attract the interest of covering positions and therefore meet the potential supply and demand of the labour market. In case the company wants to approach experienced employees, they will need to increase the salary and benefits package.
- ii. Retention of existing human resources. Employees can resign if salary levels are insufficient.

- iii. Achieve maximum professionalism. Payment is an incentive for employees to achieve the desired goals and they should receive the appropriate salary as recognition.
- iv. Ensuring justice. Most competent employees and those who hold key positions should receive higher salaries while at the same time the company's payroll policy should be competitive with other companies.
- v. Cost control. A rational payment system allows the company to hire and retain employees at a satisfactory cost. Without proper management, half may be undervalued or overpaid.
- vi. Compliance with legislation. A valid reward system complies with government regulations and ensures the employee's consent.
- vii. Easy to understand. The system can be understood not only by the HR specialists but also by the managers and employees.
- viii. Achieving administrative functionality and facilitate potential organisation change.

5. CONCLUSION

The reward systems contribute not only to attract and retain employees with the desired skills, but also motivate them to remain efficient and satisfied, while allowing Hanoi Hat company to achieve its targets. They also cover employees' needs, strengthen the company's competitiveness, and cultivate a fulfilling work culture. The General manager with the collaboration of line managers should prioritise human resource management. To build a successful total reward system, Hanoi Hat company must consult the needs of employees, in terms of salary, bonuses and further benefits. This will ultimately create an accessible environment, offer a more collaborative atmosphere, and establish a merit-based efficiency system with clear rewards.

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