Rewarding structure for payment and motivation of managers in different levels

Kristina Bocevska
Marjan Bojadziev
University American College Skopje, R. Macedonia

Abstract:

Managers are treated as a special group of employees, which are entitled for different pay out elements and other motivational measures. They have different treatment because their job is related with risk taking and decision making actions while managing their area of business within the organizations. Moreover they are more or less (depended of management level) responsible of achieving the strategic company goals and many companies apply rewarding and motivation measures linked to the achievement of company goals. For that purpose, in this paper will be presented possible payment elements and will be explored the applied managerial payment; also will be explored the difference between different management levels.

Key words: Managerial payment & its elements, rewarding strategy, management levels

Introduction

The question addressing to reward policies and practices as to attract and keep the people we need, to encourage keeping employees skills development, to maintain the appropriate behavior and to support company values, states the need of building up a reward strategy.[1] From other side, it is stated that in the companies the reward strategy is often forgotten and the companies are placed into function disconnected and rushed solutions, related with rewarding the employees. These partially developed solutions could be effective in short term, but considering the long running of organization they could be causing severe organizational problems.[2] That is to conclude why the reward strategy is important element of the overall strategic management in organizations. Moreover, the auditing if one reward strategy is fulfilling trough the reward programs deployment could be done via measuring the various rewards elements against organization's stated compensation philosophy. At this point should be concerned the competitive level of money and the mix of reward elements.[3]

---

[1] M. Armstrong, Employee reward, 3-rd edition, 2004, Cromwell press, page 90
[2] Duncan Brown, Reward strategies: from intent to impact, Chartered Institute of Personnel and Development, 2001, Short Run press, page 77
[3] T. M. Manas, M. D. Graham, Creating a total rewards strategy: A toolkit for designing a business-based plans, 2003, Page 291

Rewarding strategy

Hence, the reward elements in a global total reward strategy should involve: strategic perspective, statement of overall objectives, prominence, performance measures, competitive market reference points, competitive positioning, degree of internal equity and consistency, communication and involvement and governance.[4] Furthermore more specific elements and objectives of the reward programs should include the *base compensation system*, *variable compensation system* and *recognition management systems*. The variable compensation system should support team achievements, should connect measures with strategy, and should we short term and long term oriented. The recognition management systems should recognize individuals but to recognize also the teams, should reinforce the internal and / or external customer service orientation and should be immediate practice as much as possible. This points out that the one total reward system should include many specific elements that should fit for all job positions. From other side, including more elements states the complexity of reward systems. In addition, including more rewarding elements mean exploring and selecting different techniques for implementing base & variable compensation systems as well as different techniques for implementing recognition management systems as to fit all job positions. In this paper the focus will be held on managerial rewarding and motivating elements. For that reason, this paper will elaborate the existing elements for rewarding and motivating over the managerial positions, as well as will be identified the differences in basic salary between the levels of management (line, middle and top managers).

The hypothesis will be: ,,Exists payment differences between management levels.""

The identification of the characteristics of the level of management is as follows:

- Front Line managers are managers who are responsible for an employee or work group to a higher level of management. They are normally in the lower layers of the management hierarchy and the employees who report to them do not themselves have any managerial or supervisory responsibility.[5]

- Middle managers set goals for departments and divisions in order to carry out the vision of the company or organization. The role of a middle manager requires an in-depth knowledge of the company's goals and plans, and the know-how to communicate these goals and plans to the employees. Middle managers meet with high-level executives to communicate departmental successes and failures as well as suggest alternative strategies to achieve goals.[6]

- Top managers create the company strategy, control the plan achievements, and make key decisions. These are the most common characteristics considering the top managerial positions.

[4] M. Effron, M. Goldsmith, Human resources in the 21st century, John Wiley and sons Inc., 2003, page 161
[5] http://www.cipd.co.uk/subjects/maneco/general/rolefrntlinemngers.htm
[6] http://humanresourcesdegreeonline.net/job-description-and-duties-of-middle-management.htm

Because all organizations have specific goals and objectives that they strive to meet, for that purpose top executives devise strategies and formulate policies to ensure that these goals and objectives are met. Hence, an establishment of corporation's goals and policies is done by chief executive officer in collaboration with other top executives, which are closely monitored by a board of directors. Considering large corporation, the chief executive officer cooperates closely with the other top executives as to provide overall operation in accordance with the established goals and policies.[7]

Managerial rewarding and motivating elements & their relation to strategy

The company strategy is usually related with managers, especially top management level; and often exist relation between strategy achievements with strategically payment. Usually managers' payment could include various factors differentiating their payments:[8]

- Annual base wages
- Year-end bonuses based on company finance performance measures such as net income or economic value-adding EVA
- Long-term equity participation most commonly trough stock options
- Deferred compensation (delayed)
- Enhanced retirement and other fringe benefits
- Employment security arrangements such as employment contracts and golden parachutes (pavements triggered by chances in the firm's ownerships)

With exploring the payment elements it could be seen the relation with strategy, so we can call this managerial payment as strategically managerial payment, first focusing on Year-end bonuses based – as short-term relation with strategy achievements, and second focusing on equity participation and deferred compensation as long-term relation with company strategy achieving. Furthermore, focusing on company performance and relating payment of managers to accounting rates (such as ROCR – return on capital employees, ROI-return on investment, ROE – return on equity, & ARR-accounting rate of return) could lead to short-term results because the managers whose payment is base on such calculations could be reluctant to invest rising the denominator in ratio and producing a poor ARR in short term.[9] The conclusion cold be to develop managerial payment considering both short and long term achievements, and including elements that will support the not only the investments opportunisms but also including the productivity, customer orientation etc.

The second connection of managerial payment could be with special focus on taxes, because usually not proper distribution of managerial paying elements could result with extra cost and expenses related the mandatory payment to the authorities. In the table given under, is presented the CEO - Worker

[7] http://www.bls.gov/oco/ocos012.htm
[8] J. E. Karayan, C. W. Swenson, J. W. Neff, Strategic corporate tax planning, John Wiley & Sons Inc. 2002, page 146
[9] G. Arnold, Corporate financial management, Prentice Hall, Financial Times, 4-the edition, 2008, page 633

disparity in pay in 2001.[10] For instance the salary of CEO excluding stock options is 41 time bigger that the salary of worker.

Country	Pay out	Ratio CEO Vs. worker
USA	with stock options	350
	Without stock options	41
Mexico		233
Brazil		110
Switzerland		16

Table 1 Ratio CEO Vs. worker

From the data presented is obvious that the payment of managers could vary in significant ways. Hence, considering the strategic payment the factors influencing the managerial payment are shoved in the framework as follows.[11] Generally the decision about the strategically payment would be result of evaluation the complexity factors such as company internationalization, diversification, size, the existing market uncertainty and the political influence in the acting environment.

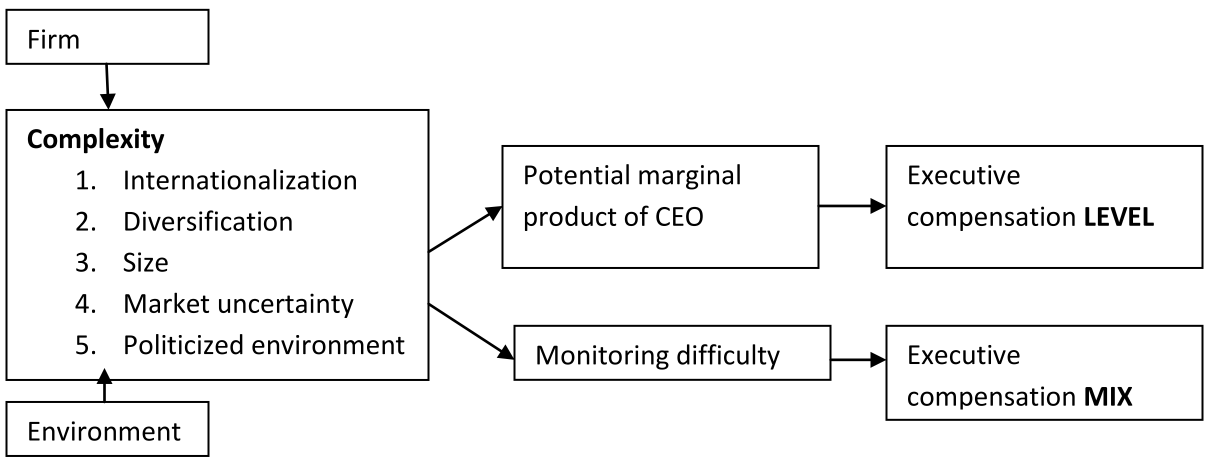

Figure 1. Conceptual framework of complexity and executive compensation

It is sated that rewarding managers and employees for making the best long-term value decisions instead of just traditional short-term rewards becomes a difficult (perplexing) but not impossible (insurmountable) problem.[12] Hence, this problem since it is related with company value means that is related with company strategy, because usually and traditionally company strategy intent is to add value. Creating value trough creating strategically related payments for managers could be a part of business strategy nowadays, especially in HR part of the overall business strategy.

[10] Vital Signs 2003-2004: The Trends That Are Shaping Our Future, Worldwatch Institute, Earthscan Publications Ltd. page 91

[11] L. Hengartner, Explaining Executive Pay: The Roles of Managerial Power and Complexity, Deutscher Universitats – Verlag, 2006, page 55

[12] D. E. Hussey, Strategic management: from theory to implementation, 4-th edition, David Hussey, 1998, page 265

Research design

The research has included 5 companies in mining industry in Macedonia in 2009 and 2010. During the research were identified 45 managerial job positions.

The identification of Top, Middle and Line Managers was according the following criteria:

TOP Mangers

- Direct reporting to General manager or CEO
- Have Strategically importance, crucial decision makers, company general plan controllers
- Have at least 1 direct reports or have many relations with external entities
- Have high influence of budget

Middle Managers

- Direct reporting to Top Managers or to General manager or CEO
- Have Smaller Strategically importance
- Usually have direct reports or have some cooperation with external entities
- Have medium influence of budget

Line Managers

- Direct reporting to Middle Managers
- Have Small or not have Strategically importance
- Usually have direct reports (supervise and control operating employees) or may have some cooperation with external entities
- Have small influence of budget

Results and Analysis

Average basic salary	% of the average basic salary of Top Manager
Line managerial positions	76%
Middle managerial positions	87%
Top managerial positions	100%

Table 1 Average basic salary as % of Top Managerial positions

Max basic salary	% of the max. basic salary of Top Manager
Line Manager	72%
Middle Manager	85%
Top Manager	100%

Table 2 Max basic salary as % of Top Manager basic salary

Min basic salary	% of the min. basic salary of Top Manager
Line Manager	75%
Middle Manager	88%
Top Manager	100%

Table 3 Min basic salary as % of Top Manager basic salary

Only Top managerial positions were given:

- Year-end bonuses based on company finance performance measures
- Long-term equity participation

Still there was no official information about others reward elements such as:

- Deferred compensation (delayed)
- Enhanced retirement and other fringe benefits
- Employment security arrangements such as employment contracts and golden parachutes (pavements triggered by chances in the firm's ownerships)

Other motivational and stimulation measures were given also to top management such are:

- Business vehicles for private and business purposes
- Business credit cards

Conclusion

The front-line managers have salaries that are around 70% of the basic salary of top management, and middle managers have salaries that are around 85% of the basic salary of top management. The conclusion is that the differences are mainly and most expressed in the other compensation ling-term elements as well as the equity options that are given only to top managers. Those amounts significantly influence the overall payment.

References

1. M. Armstrong, Employee reward, 3-rd edition, 2004, Cromwell press
2. Duncan Brown, Reward strategies: from intent to impact, Chartered Institute of Personnel and Development, 2001, Short Run press
3. T. M. Manas, M. D. Graham, Creating a total rewards strategy: A toolkit for designing a business-based plans, 2003
4. M. Effron, M. Goldsmith, Human resources in the 21st century, John Wiley and sons Inc., 2003
5. http://www.cipd.co.uk/subjects/maneco/general/rolefrntlinemngers.htm
6. http://humanresourcesdegreeonline.net/job-description-and-duties-of-middle-management.htm

7. http://www.bls.gov/oco/ocos012.htm
8. J. E. Karayan, C. W. Swenson, J. W. Neff, Strategic corporate tax planning, John Wiley & Sons Inc. 2002
9. G. Arnold, Corporate financial management, Prentice Hall, Financial Times, 4-the edition, 2008
10. Vital Signs 2003-2004: The Trends That Are Shaping Our Future, Worldwatch Institute, Earthscan Publications Ltd.
11. L. Hengartner, Explaining Executive Pay: The Roles of Managerial Power and Complexity, Deutscher Universitats – Verlag, 2006
12. D. E. Hussey, Strategic management: from theory to implementation, 4-th edition, David Hussey, 1998