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Why are your reward strategies not working? The role of shareholder value, country context, and employee voice

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Abstract This article suggests that when reward strategies fail, it is because they are frequently subsumed to a meaningless search for a best practice that delivers shareholder value that could be applied uniformly across countries, sectors, or workplace contexts. For instance, executive compensation schemes incorporating stock options are focused too much on delivering value for shareholders, and ignore other important stakeholders such as employees. Flexible benefits schemes tend to be designed and implemented top-down, without employee involvement or customizing them to meet their needs. I argue that reward practices should move away from shareholder-value reward to stakeholder reward, making full use of employee voice mechanisms as a key ingredient of workplace innovation. I consider the case of shared capitalism practices and outline the benefits of broad-based employee ownership schemes. This article concludes by offering prescriptive advice for the application of such schemes to enhance productivity and boost employee satisfaction.

1. Reward strategy failure

Human resource managers and reward professionals often are puzzled by the failure of reward strategies to increase productivity, boost job satisfaction, and enhance company performance. There are three main reasons these reward strategies fail. First, any innovative reward strategy should not be subsumed to a meaningless search for a best practice that could be applied uncritically in uniform reward packages. Second, much of the reward practice is overly focused on aligning the interests of top managers and CEOs with those of shareholders, while ignoring the main bulk of employees in the organization. Third, HR professionals miss the point that innovative workplace strategies do not operate in a vacuum and top-down approaches frequently backfire.

In this article, I start by substantiating the problem of the best practice and shareholder value obsessions by considering examples of problematic

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reward practices that are widely diffused but fail to deliver expected benefits. Next, I discuss the variety of cultural and institutional contexts and how key dimensions have different implications for appropriate reward strategies. Section 4 considers the main building block of the solution, which includes an enhanced role for employee voice as a key prerequisite for successful workplace innovation. Section 5 examines the example of shared capitalism that includes broad-based employee ownership schemes as an innovative reward practice that is likely to enhance productivity and boost employee engagement and innovation. Last, I offer prescriptive advice on the key issues that professionals need to keep in mind while implementing innovative reward schemes.

2. The problem: Obsession with best practice and shareholder value

Many human resource practitioners and reward professionals—especially management consultants—are fascinated by the idea of coming up with some sort of best practice. This is understandable, as a best practice is useful as a shortcut to crack difficult, recurrent problems. It is much easier to consider what the leading organizations in each sector are doing, dub this as a best practice, and then try to replicate these practices. Despite a large body of rigorous academic research (e.g., Edwards, Sanchez-Mangas, Jalette, Lavelle, & Minbaeva, 2016; Festing, 2012) that suggests that this usually leads to shooting yourself in the foot, the logic is appealing. The same best practice logic has been applied to reward practices.

One notorious example of a failed best practice that is linked with attachment to shareholder value is the so-called *golden parachute*. A golden parachute is usually a clause in an executive's employment contract specifying the level and type of severance package that the executive will receive in the event that his/her employment is terminated. There are many recent examples that made some of the biggest headlines. For instance, ex-CEO of Hewlett-Packard, Léo Apotheker, failed to turn around the fortune of the company but walked away in 2011 with \$23 million for 11 months' work (Stewart, 2011). Another example comes from McDonald's ex-CEO Don Thompson, who abruptly retired from the brand in January 2015 amid accusations of tumbling sales and a failed strategy but left with a generous golden parachute and, even more, remained on McDonald's payroll for \$3 million to offer consulting services (Lutz, 2015). Despite the public's continued annoyance with generous golden parachutes, even after apparent failure, this continues to survive as a best practice in the war for talented CEOs.

HR professionals have spent too much time and energy tying together executive pay with shareholder value. William Lazonick (2014) powerfully argued that the widespread influence of shareholder value principles may have brought profits, but not necessarily prosperity. When a company ascribes to the shareholder value corporate governance model, the primary goal is the maximization of shareholder value by addressing the *principal-agent problem* (Aguilera & Jackson, 2003). Payment of top management is linked directly to shareholder value in order to align the interests of the principals (shareholders) and the agents (management). Therefore, performance-related pay (PRP) systems such as bonuses and stock options seem appropriate. But the reward system does not have a built-in mechanism that prevents such rewards from unintentionally encouraging unethical or counterproductive behaviors (Aguinis, Joo, & Gottfredson, 2013; Kerr, 1995). For instance, in the case of experiencing lower profitability, top managers may decide in favor of downsizing by shedding employees in order to improve returns on capital indicators.

The widespread diffusion of shareholder value best practice principles can be further fleshed out with the widening of the CEO-to-worker pay gap. According to the State of Working America (2012) report released by the Washington-based Economic Policy Institute, CEO compensation was about 20 times higher than average worker pay in 1965, 123 times higher in 1995, and 231 times higher in 2011. But these aggregate figures conceal much wider gaps that may be found in companies. Bloomberg calculated the CEO-worker pay ratio in S&P 500 companies (see Michaels, 2015): Union Pacific CEO pay was 262 times higher than average pay; Community Health Systems' CEO earned 414 times more than average employees, whereas the McDonald's CEO earned 644 times more than the average worker.

The widening pay gap and the diffusion of stock options is not only characteristic of the U.S.—which is attuned to the short-term orientation of its model of capitalism (Whitley, 2009)—but is observed across the globe. The increased use of variable pay schemes in these countries denotes the intrusion of shareholder value principles in their otherwise stakeholder corporate governance systems (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Aguilera & Jackson, 2003). The increasing