Preface

This book is a selection of papers presented at the second European Reward Management Conference (RCM) in 2009 that passed sucessfully a review process by two anonymous reviewers. It consists of six chapters, three of them discussing theoretical approaches to reward management, and three are case studies providing a theory-based analysis of prototypical topics in reward system design with implications for both theory and management.

In Chapter 1 Jonathan Chapman and Clare Kelliher give a review of the literature on reward mix conceptualisation and determination. They focus their review on employee pay and consider theories that treat rewards as the dependent variable, such as contingency, agency, institutional and resource dependency theory. Based on this analysis they develop a conceptual framework for the study of reward mix decisions within a total rewards framework. They suggest to combine different theoretical aporaches and to do more qualitative research particularly on employee level in order to better understand the issues decision-makers consider when determining the reward mix.

Chapter 2 by Christelle Tornikoski discusses theoretical approaches to expatriate compensation. This paper analyses expatriate compensation from the perspective of three different groups of actors, which are embedded in different contexts, and uses different theories for these perspectives. The first one is the perspective of human resources specialists, who supposedly try to guarantee that organizational interests are considered by the design of expatriate compensation packages. Agency theory is used to analyse this perspective. The second one is the perspective of supervisors, who lead and motivate expatriates. The third one is the perspective of expatriates themselves, who manage their careers. Social exchange theory, the concepts of psychological and idiosyncratic contracts, and total rewards are used to discuss the later two perspectives. Finally, environmental or country context factors, influencing both human and organizational behaviours, are discussed using institutional theory. Based on these different perspectives and theories five propositions are developed to guide further research practice and implications for managerial practice are discussed.

In Chapter 3 Marco Celentani and Rosa Loveira discuss critically the notion of „The War for Talent" and provide arguments that it does not make sense to pay „talent" independent of performance. In particular, they analyse the question, whether in markets for managerial services, where information about managerial talent is not publicly observable, information about managerial talent is used in equilibrium contracts, compared to situations, where information about managerial talent is publicly observable. They show that when information on managers' talent is publicly available, it is used in the equilibrium contract. However, if this information is not publicly available, it is not used, because of the competition of companies for talented managers and the existence of information asymmetries with respect to managers' abilities to forecast the realisation of investment projects.

Chapter 4 by Biljana Bogićević Milikić analyses the interdependence between culture and reward systems using a case study of a company that implemented a performance-based reward system within a collectivistic national culture. Based on interviews with managers and employees, as well as secondary analysis of questionnaire data the implementation process of a new reward system and its effects are analysed. It is shown that collectivist values strongly influence employees' equity perceptions and go along with critical views regarding large ranges in base pay, but not necessarily with respect to pay for performance. Based on these results hypotheses for further studies are proposed and implications derived to guide managerial practice.

In Chapter 5 Laurent Sié and Ali Yakhlef analyse the motivation of experts to transfer their knowledge to novices. Based on self-determination theory they assume that in the context of tacit knowledge transfer feelings of competence, autonomy and social ties encourage experts more to transfer their knowledge to younger colleagues than extrinsic rewards. The latter might even lead to crowding out effects. They test these assumptions in a case study of a multi-national oil company, whose success depends to a great extent on the ability of its experts to discover new reserves in an as efficient manner as possible. They had interviewed experts to find out what motivates them to transfer their knowledge to younger colleagues, how they experience the transfer process, and what they perceive as requirements for an effective knowledge transfer process. Furthermore, they compare these assessments with the view of novices in this company. Their results give important guidelines for management, how tacit knowledge transfer can be supported.

Chapter 6 by Lars W. Mitlacher provides an analysis of work-life balance accounts as an element of a total compensation approach. The goals of employer associations, trade unions and government are compared based on two collective agreements on work-life balance accounts in Germany. A strategic choice approach is used as a theoretical framework differentiating goals and activities of these actors on three levels: strategic, collective bargaining and workplace levels. This analysis shows how work-life balance accounts can be used as an element of a total compensation approach. Furthermore, interesting questions for further research are developed.

To sum up, the papers in this book give interesting insights in current issues of reward management. They develop promising avenues for further research in this field and offer valuable implications for managerial practice.

Conny H. Antoni, Xavier Baeten, Rosemary Lucas, Stephen Perkins, Matti Vartiainen

Reward Mix Conceptualisation and Determination: A Review of the Literature

Jonathan Chapman, Clare Kelliher

This presents a summary of the findings from a detailed review of the literature on reward mix conceptualisation and determination. The main purposes of this review are twofold. First, examining the issue of reward mix policy decisions from multiple perspectives, will enable a more complete understanding of both our current knowledge on the determinants of reward mix policy and how we come to know this. Second, building on this understanding, to identify specific research gaps for further empirical work.

The review identifies that the conceptualisation of reward mix, and empirical research in the area has typically examined cash compensation, but neglected benefit provision and non-financial rewards which employers are increasingly emphasising under the banner of a 'Total Reward' approach. In addition, a myriad of factors have been shown to determine reward mix and as such suggests that we in reality know little about why reward mix policy decisions are taken. No dominating paradigm has emerged from the research, which adequately explains the process. Finally, the review shows that the research on reward mix determination has been conducted almost exclusively by statistical review with little time being spent with the reward policy decision makers themselves, in order to understand what issues they consider when determining reward mix. Research from different theoretical orientations could add insight to the area through revised theory generation and potentially contribute to simplifying the field.

Introduction

Employee reward can come in a variety of forms (Dreher et al., 1988). The focus of the reward literature has largely been on pay, both fixed, in the form of salaries and wages, or variable through a range of schemes such as incentives, bonuses and stock related schemes (Gerhart & Rynes, 2003). The interest in pay is unsurprising given the amount that organisations spend on pay as a proportion of their overall costs (Lawler, 1971) and its importance to individuals (Milkovich & Newman, 2008). However, this focus neglects the wider approach to reward management choices that practitioners are increasingly taking in the area of total reward (Milkovich & Newman, 2008; Armstrong & Murlis, 2007).

This has led to a call for academic research to incorporate non wage compensation elements and look at the determinants of aspects other than pay (Gomez-Mejia & Welbourne, 1988; Heneman et al., 2000; Milkovich, 1988).
Gerhart and Rynes (2003) note that there is potential for variance in how organisations allocate compensation across the various forms of reward and therefore construct their reward mix. This is in contrast to what (i.e. the amount) they pay, where there appears to be less discretion due to the perceived need to stay broadly in line with competitors for attraction, retention and overall economic competitiveness reasons (Gerhart & Milkovich, 1990). Significant quantitative research has been carried out analysing the relationships between a range of both firm and environmental items and reward decisions including reward mix (e.g. Eisenhardt, 1988; Boyd & Salamin, 2001; Tremblay et al., 2003). Whilst helpful, this research does not give an insight into the relative importance of these factors in the actual reward mix decisions taken (Perkins & White, 2008).
Baeten (2008) identified thirty-four different theories that have been used in reward research (at Executive level), a number of which examine reward mix determination. In this context convergence around a smaller number of theoretical perspectives might prove helpful in closing a perceived gap around the lack of strong theoretical models to aid in understanding the determinants of reward mix and which would direct future research (Pfeffer, 1993).
After setting out the focus of the literature review and outlining the method taken to conduct the review, this chapter defines key reward mix terms and examines how reward mix has been conceptualised in the literature to date. Following this, four explanations of reward mix determination are reviewed. First, contingency and agency theories are discussed as the base for understanding what is driving reward mix decisions in organisations, as the current dominant paradigms in reward mix research. This base view is then critiqued and accompanied by alternative explanations of reward mix decisions. Resource dependency and institutional theory are offered as both competing and complementary explanations for reward mix policy decisions. Second, the theoretical approaches are then drawn together in a review of research, which combines their insights to examine reward mix policy decisions. Finally, the epistemological positions taken by researchers into reward mix are examined and critiqued. From this a conceptual framework of reward mix determination is presented and a number of research gaps proposed for further empirical research.

Review Question

Gerhart and Rynes identified that although reward strategy is a matter of various choices, "surprisingly little is known empirically about how such choices are made in the first place" (2003: 7). It is in this context that this review is intended to explore what we know about how reward mix is determined and from this to build a conceptual framework to be used in future research. This will be carried out not only with respect to singular theories of reward mix determination, but also how they have been integrated.
The scope of the review is limited to employees, not executives. This focus has been se-

lected in the context of criticism of the concentration of analysis at the reward level of the top executives and in particular CEOs (Gerhart & Rynes, 2003) . Focussing solely on the CEO attributes all the success of the organisation on that one compensation decision and the effect it has on one individual. This creates the impression that the remainder of employees make little contribution to the overall company success. Hambrick and Mason (1984; Hambrick, 2007) showed that the success of an organisation depends on all contributions. This led them to propose that reward research should extend its reach across lower levels of the organisation.

Reward Theories

Bloom and Milkovich (1996) identified two types of reward theories. First, those that treat reward as the dependent variable and help us understand reward determination. Other studies treat reward as the independent variable assessing the effect that different reward policies have on individual and organisational outcomes. For example, motivation theories (e.g. expectancy, goal setting, equity) and pay satisfaction theory, all examine the transmission mechanism between reward and specific outcomes (Bloom & Milkovich, 1996). Reward theories can be categorised further between organisational level reward policies and those that consider individual level reward decision[1] (Werner & Ward, 2004). Reward mix determination is an organisational process; therefore, the correct unit of analysis is the organisation (Barringer & Milkovich, 1996) and individual level reward determinations have been excluded from this review (although it is recognised that these may influence reward mix determination). Within these bounds, the review of the literature indicates five theoretical perspectives that have been applied to reward mix determination at organisational level: agency, contingency, transaction cost, institutional and resource dependency[2]. However, evidence for the transaction cost perspective is relatively weak with agency theory suggested as a more effective explanatory framework (Tremblay et al., 2003; Andersen, 1985; John & Weitz, 1989). Consequently, the transaction cost approach is not considered further in this review.

Method

A systematic review was undertaken of the literature on reward mix determination based on the four perspectives identified. The systematic review was intended to provide a detailed and methodologically rigorous review of the reward literature. The search strategy

[1] Individual level theories include human capital theory and justice based theories.

[2] A number of other theoretical perspectives have been used to examine reward policy decisions, for example efficiency wage theory or labour market theories. However, these other perspectives were not selected for review as they typically focus on reward level rather than reward mix.

adopted had two streams. First, utilising the power of electronic databases a systematic search was conducted – ABI Inform and EBSCO. These were chosen as their coverage aligned with the 2004 literature review by Werner and Ward that identified 20 top management journals relevant for all reward related research. This list was established from that developed by Gomez-Mejia and Balkin (1992) and reviewed in Werner (2002) and has since been cited by others as a good guide to journal quality in the reward area (Van Fleet et al., 2000). Second, a range of search strings were developed covering a wide range of terms used in examining reward research from the theoretical perspectives examined.
An initial filter of the results was carried out removing any obviously unrelated topics (for example during preliminary searches several hundred articles on compensation were related to other subject areas such as consumer compensation, mathematical modelling and legal redress). Following that abstracts were read for relevance and ultimately selection. Data was then extracted from the articles as shown below.

- citation information: author, journal, year;
- descriptive information: country, sector;
- reward mix choice examined e.g. fixed/variable, pay/benefits etc
- methodological information: empirical/theoretical, quantitative/qualitative, case study/survey;
- theoretical perspective(s) taken;
- objective of research: short description;
- data collected: method, sample size etc;
- tests carried out;
- key findings;
- quality assessment: see below; and
- notes and quotes: likely to form main material for literature review write up.

In addition, research quality was assessed with reference to the guidelines for the Academy of Management Journal Guidelines for Reviewers (2007-2010) (http://journals.aomonline.org/amj/reviewer_guidelines.html).
In addition to the systematic review other literature was examined arising from the reading of these journals and suggestions from an advisory panel that was established to ensure that other potentially good sources (such as books and practitioner material) was not missed.

Reward Mix Defined

There is no consensus in the literature around the conceptualisation of reward mix (Yanadori et al., 2002). A summary of reward mix measures used in extant research is given in table 1.

Table 1: Summary of reward mix measures used in employee level reward mix research

Study	Reward mix conceptualisation	Theoretical perspective
Darmon 1982	Relative proportion of salary, commission and bonus	n/a
Ippolito 1987	Proportion of reward in pension as measured by capital loss	n/a
Balkin & Gomez-Mejia 1987	Relative importance of fixed (salary and fringe benefits) and variable (incentive) components of reward	Contingency
Eisenhardt 1988	Proportion of salary relative to sales commission payments	Agency, institutional
Gomez-Mejia & Balkin 1989	Merit pay as a percentage of base salary. Bonus as a percentage of base salary. Aggregate incentive pay as a percentage of base salary	Strategic compensation
Gerhart & Milkovich 1990	Extent of variable pay, in terms of relative amounts of short term bonuses, long term incentives and base salary in individuals pay	Agency, expectancy
Conlon & Parks 1990	Proportion of contingent versus non contingent pay	Agency, institutional
Gomez-Mejia 1992	Proportion of incentives relative to fixed pay	Strategic compensation
Balkin & Bannister 1993a	Proportion of earnings coming from each pay form	Resource dependency
Werner and Tosi 1995	Bonus to bonus and base ratio	Agency
Umanath et al. 1996	Proportion of salary in total compensation	Agency
Gerhart & Trevor 1996	Average ratio of bonus pay to base pay	Agency
Roth and O-Donnell 1996	Proportion of compensation as incentives (short term bonus, long term bonus, short term equity plan, long term equity plan)	Agency
Stroh et al. 1996	Bonus divided by total cash	Agency
Bloom & Mikovich 1998	Ratio of base pay to bonus	Agency
Demougin & Fluet 2001	Strength of incentives in mix relative	Agency
Boyd & Salamin 2001	Ratio of bonus to base pay	Strategic compensation
Miller et al. 2001	Weighted mean of productivity bonus	National culture
Tremblay et al. 2003	Proportion of salary component as a percentage of total average sales compensation	Agency, resource dependency, transaction cost
Kuhn & Yockey 2003	Salary component relative to bonus	No theoretical perspective
Van der Stede 2003	Percentage of compensation that is performance dependent	Institutional, Hofstede, contingency
Datta et al. 2004	Mix of wage payment between cash and kind payments	No theoretical perspective
Yanadori & Marler 2006	Ratio of long-term pay to short-term pay	Strategic compensation, agency, resource dependency
Burke & Hseih 2006	Balance of fixed and variable compensation	n/a
Pappas & Flaherty 2006	Percentage of total pay in incentives	Expectancy
Segalla et al. 2006	Fixed versus incentive compensation	Agency, expectancy, Hofstede
Ittner et al. 2007	Salary to cash bonus ratio	Agency
Festing et al. 2007	Fixed pay compared to variable pay	Resource dependency, institutional, Hofstede.
Abbot & De Cieri 2008	Extent to which work-life benefits are included in reward mix	Strategic choice, stakeholder, resource based view

The conceptualisation of reward mix is dominated by the examination of cash compensation, albeit defined in a range of different ways. Benefits and relational returns are generally excluded. Festing et al justified this focus as "the decision about variable and/or fixed pay is the starting point which guides all the other decisions" (2007: 122). Some papers included benefits and relational elements in theoretical discussions of reward mix, but the use of these in empirical research has been more limited. For example, Werner and Tosi defined reward mix as "the way that firms orchestrate different components of pay, such as base pay, bonuses and incentives, and benefits" (1995: 1672). However, they then measured mix as the ratio of bonus to total cash compensation. These narrow definitions may be because of the relative ease in measuring cash compensation, or alternatively, given that none of the studies record having spent significant time with practitioners themselves to understand what reward mix means to them, an inaccurate specification of the term.

Scholars have called for the conceptualisation of reward mix to be more widely defined. Gerhart and Milkovich stated that "in structuring monetary compensation, decisions concerning the mix between direct pay and benefits are important. But, at an even more general level, organizations face a choice between allocating resources to pay versus other potential rewards/returns, such as improved supervision, participation, working conditions, advancement opportunities, job design, training and so forth“ (1992:551). They add that, given the increase in the proportion of compensation provided through benefits, it is less and less correct to equate direct pay with total monetary compensation (1992:484).

This wider definition is in line with practitioner interest in an extended reward definition often termed total reward (Perkins & White, 2008; World at Work, 2007). This approach has been heavily supported by professional bodies such as the CIPD and World at Work and a range of reward consultancies who have published total reward frameworks.

Reward Mix Research

A Contingency Perspective

Contingency theory contends that one variable's effect on another will depend on a third factor (Donaldson, 2001). These contingency factors will therefore need to be considered when reward choices are being taken, in order to examine the question as to whether there are "general best practices in compensation or do appropriate compensation practices depend on a variety of contextual conditions?" (Gerhart & Rynes 2003 p257).

A number of contingencies have been studied. Gerhart and Milkovich (1992) developed a contingency based model of compensation decisions, which described how they believed employers took decisions about reward mix (amongst other things). This contingency model included a number of both environmental and organisational factors including business strategy, HR strategy, product market and firm size which were said to influence the type of compensation system an organisation pursued. Since then a number of scholars have examined statistically the relationship between some of these factors and reward mix. For example, Gomez-Mejia and Balkin (1992) identified two different pay strategies that were adopted dependant on whether organisations were defenders (i.e. firms staying in the same industry and product line and protecting market share through continual refinement and cost efficiencies), or prospectors (i.e. firms that tended to be first to market with new products and innovations hoping to gain an early advantage in the new market). They showed that defenders typically choose a mix which focuses on base pay and benefits, compared to prospectors who place greater emphasis on longer term incentives. Rajagopalan supported the conclusions of Gomez-Mejia and Balkin that the effects of the pay strategy depend on its alignment with the business strategy and, in addition, discovered that prospectors perform better with long term stock plans (Rajagopalan, 1996). Montemayor, applying a different measure of business strategy based on Porter's Generic Strategies (Johnson et al., 2008), found that the incentive to base pay ratio varied according to business strategies based on cost leadership, differentiation and innovation (Montemayor, 1996). Furthermore Gomez-Mejia (1992) and Kerr (1995) identified that product diversification was significant and Chen and Hseih (2005) highlighted the importance of company life stage.

Other elements of strategy have also been considered including firm size (Artz, 2008; Ang et al., 2002; Russell & Callanan, 2001; Krashinsky, 2002); ownership structure (Blasi et al., 1996) and unionization (Abraham et al., 2008; Colvin et al., 2001; Batt, 2001; Kaufman, 2002; Raphael, 2000). In addition studies have covered a range of factors that could be said to affect business certainty, including economic variables (Olson & Schwab, 2000; Christofides & Laporte, 2002); technological changes (Brown & Campbell, 2001; 2002); environmental uncertainty (Umanath et al., 1996) and legal factors (Addison & Blackburn, 1999; Friesen, 1996; Kaestner & Simon, 2002).

Widely cited research by Bloom and Milkovich (1998) examined the role of business risk as a key determinant of base pay and bonus policies. They found that firms in higher risk environments (measured by volatility in stock returns) will have lower shareholder returns where they adopt more aggressive performance related incentive programs. In addition, Stroh et al. (1996) noted that the use of increased variable pay was about transferring risk to employees, using variable reward strategies to manage the additional variability in revenue and profitability that they are facing at this point in their history.

There has been less work on the influence of organisational culture on reward mix determination. Chiang and Birtsch (2006; 2007; Chiang, 2005) examined the effect of national culture (not organisational) on reward preferences of employees (not reward choices by organisations) using Hofstede's cultural framework (Hofstede, 2001). They found limited predictive capability of Hofstede's approach and therefore speculated that employee preferences may in part be influenced by variables other than national culture, for example organisational and environmental factors. Organisational culture could however be hypothesised to be significant given the view that culture is a key element in creating competitive advantage, the difficultly in imitating it and the effort organisations put into developing it (Barney, 1986; Collins & Porras, 1994).

Agency Theory

Agency theory examines the relationship between owners or principals and employees or agents. It proposes that both parties look to achieve the most favourable employment exchange possible for their interests and will act accordingly (Jensen & Meckling, 1976). According to this theory reward mix is a significant control mechanism used by principals to ensure that agents act in the owners' best interests. Most of the reward research using agency theory as its theoretical base has been done on the compensation of top executives in organisations, usually the Chief Executive Officer, with lower level understanding of reward mix issues less well studied (Bloom & Milkovich, 1998; Trevor, 2008). Studies extending beyond executive reward have been conducted and will be examined below.

Agency theory provides insight into how goal incongruence, differing risk preferences and information asymmetry can be managed. At the centre of managing these issues is reward mix defined as the proportion of fixed and variable reward making up total compensation. Wiseman et al outlined the importance of "creat[ing] a common fate" through reward mix (2000: 312). Higher proportions of variable pay are intended to achieve this common fate by tying employees' interests to those of the organisation (Gomez-Mejia & Balkin, 1992; Delvey, 1999). How organisations attempt to achieve the common fate depends on the type of contracting arrangement they put in place and the reward mix arrangements that flow from this. Outcome based contracts link agent's reward to an outcome desired by the owner of the organisation, for example shareholder return. This is desirable for the owner as it aligns reward between owner and employee. However, the use of outcome contracts may be less appealing to employees as outcome measures are not fully in their control (Eisenhardt, 1989). For example, an organisation's share price will move not only due to the performance of the organisation, but also due to wider market moves independent of the organisation's performance (Hull, 2009). The transferring of risk, through outcome based contracts also has a cost, as the agent will require a risk premium through a higher level of total reward, to compensate for the increased risk that they are bearing (Eisenhardt, 1989). The level of risk premium will reflect the increased uncertainty of result, which comes from outcome based contracts (Eisenhardt, 1989). Agency theory predicts that high levels of business uncertainty lead to higher proportions of fixed pay, as the risk premium required to compensate employees for uncertainty about future compensation flows and lowered employment security becomes prohibitively expensive (Bloom & Milkovich, 1998). However, research has not shown this, with organisations in fast-paced uncertain markets adopting more flexible approaches to compensation to manage cash flow and attract the required skills (Stroh et al., 1996; Balkin & Gomez-Mejia, 1987; 1990).

Alternatively, behaviour based contracts can be used, which link employees' reward to specific behaviours or actions delivered by the employee regardless of their ultimate effect on the return accruing to the principal. This may be more appealing to employees as it is within their control, but may have less appeal to the principal given the monitoring costs associated with the subjective measurement and the fact that behaviours are not guaranteed to deliver the principals' goal (Eisenhardt, 1989). The decision about which form of contract to adopt is a key one for organisations, given the implications that it appears to have for how reward is distributed between fixed and variable reward elements.

Reviews by Eisenhardt (1989), Zajac and Westerphal (1995), Prendergast (1999) and Miller and Whitford (2007) indicate that agency theory research generally supports the prediction that reward mix can assist in controlling employees. However, agency research can be criticised on a number of fronts. Studies have typically focused on sectors and roles where measurement of performance is straightforward e.g. piece rates, sales and overall profitability when using CEOs as the target role (Prendergast, 1999). This may limit the usefulness of the approach in understanding roles where behavioural contracts are more common, due to outcome measurement difficulties. A cautious interpretation of the results would also take into account whether the activities performed in their own right carry any intrinsic motivation, which, according to Deci (1985), would be diminished by explicit monetary payment (Prendergast, 1999). Tosi et al. (1997) criticised the firm level econometric approach to testing agency theory, which required proxy variables to be developed based on the availability of data. They contend that the usefulness of these studies is limited by concerns over construct validity and reverse causality. Prendergast also notes the problem with "identification difficulties" (1999: 11), that although the theory often provides a good explanation, the outcomes observed could equally be explained by other theories.

Miller and Whitford asked the question that, in light of this support for the use of incentives to align outcomes, "why are incentives not used more often than they are?" noting that "even in those cases where the agent's performance can be directly linked to compensation, corporations often still choose to use contingency-free compensation schemes" (2007: 214). They concluded that this is driven by self interested principals accepting lower efficiency "out of a concern for the principal's own profit." (2007: 215). They outline that there are theoretical cases where the incentive levels required to induce effort are more costly, due to the risk premium required being significantly higher than the resulting increase in profitability. A degree of inefficiency is profit maximising. Consequently, "most organisations, and in particular public agencies, rely very little on pure incentive contracts and instead use coercive mechanisms of monitoring and sanctioning" (2007: 213).

The agency model has been criticised for its focus on reward mix as the pivotal mechanism for control and ignoring other elements of the agency relationship (Eisenhardt, 1989; Fernandez-Alles et al., 2006). The contract specification cannot capture all relevant dimensions, such as uncertainty, information shortages and the dynamic and political nature of the relationship (Tosi et al., 1997). A further criticism questions the agency theory assumption of a conflict of interest between principal and agent and consequently, whether there is a need for reward mix to act as a control mechanism (Deckop et al., 1999). For example, Ouchi (1980) contended that goal incongruence varied across the workforce. Where alignment was strong Deckop et al believed there was little need for incentive pay as the "clan-form" (1999: 421) would ensure behaviour consistent with organisational goals.

A final criticism comes from the fact that agency theory has generally been applied solely to cash compensation (Barringer & Milkovich, 1998). It could be extended to include

other elements of reward with benefits considered as a fixed element. However, this approach has its drawbacks given the deferred nature of certain benefits and the rising value (i.e. variability) of this benefit as retirement approaches. Sheppard et al (1996) also showed the incentive effects that flexible work has, where workers are prepared to work hard enough not to lose this valued part of the mix through dismissal. This variable has not been incorporated, to the best of my knowledge, in any agency based research.
Agency and contingency theory have emerged as the main theoretical explanation of reward mix. However they both have focused on the fixed to variable reward relationship, not a wider mix definition incorporating benefits and relational returns. For this we need to look to other theories for insight. It has also been suggested that these theoretical approaches overemphasise the efficiency and rational drivers of decision making in reward mix choice and underestimate the institutional and political power related pressures that may be relevant to organisations (Barringer & Milkovich, 1998; Bartol & Locke, 2000). For example, Eisenhardt concluded that agency theory "is an empirically valid perspective, particularly when coupled with complementary perspectives" (1989: 57), and Barringer and Milkovich stated that "agency theory presents a partial view of the world that ... ignores a good bit of complexity of organizations" (1998: 71). Further examination of these "complementary perspectives" is important to understand the role they may play in reward mix decisions to deepen our insight of how they interact and influence decision making.

Institutional Theory

Institutional theory[3] proposes that institutional forces create coercive, mimetic and normative pressures on organisations to be similar in how they operate (DiMaggio & Powell, 1991). The extent to which these constraints operate influences how much freedom of choice organisations may have over reward mix (Carpenter and Wade, 2002).
Coercive isomorphism "results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent" (DiMaggio & Powell, 1991: 67). These pressures can take a number of forms. First, legal, through laws and regulations. U.K. employment legislation has increased significantly since 1970 with, for example, minimum wage, working hours and holiday entitlements, share ownership and pension legislative requirements having been introduced. As components of reward mix, constraints on how they are managed are likely to influence the overall mix. For example, pension legislation has sought to influence organisations' behaviour towards this element of the reward mix, with direct coercion in the form of personal accounts to be introduced from 2012 (Crown, 2008). These politically driven influences on reward mix may mean

[3] This review is based on neo-institutional theory which took initial theorising on the influence external factors have on organisations and extended this through describing the processes by which external factors influence organisations (Hatch and Cunliffe, 2006).

specific benefits are provided, even though they are expensive (Festing et al., 2007). Perkins and White felt that the legal context was so significant that “while employers may wish as far as possible to create reward strategies for their own particular circumstances, the starting point will always be what the law allows or requires” (2008: 67). Second, as the tax system regarding pay and benefits has changed, tax efficiency, especially around the balance between benefits and cash wage payments, has become increasingly significant (Perkins & White, 2008). This led Long and Scott to conclude that “taxation is a major determinant of the compensation mix” (1982: 218). Finally, coercive pressures may arise from trade unions. Unions appear to have a particular interest in certain elements of the reward mix, such as holiday entitlement, pensions and sick pay (Forth & Millward, 2000). Budd and Mumford (2004) also showed how union representation was positively related to the extent to which family friendly policies were part of the reward mix.

Mimetic behaviour is when organisations adopt policies that others have adopted, in order to gain the security that conformity is perceived to bring (DiMaggio & Powell, 1991). Organisations look to avoid uncertainty as diverging from standard practice is seen to increase risk (Norman et al., 2007). Mimetic pressures appear to be commonplace in the reward field originating from a number of sources (Trevor, 2008). First, organisational knowledge may be held by particular individuals and through turnover, this knowledge may be spread across other organisations. Specific reward specialist recruitment agencies are established (such as TotalRewardCareers and Portfolio CBR) potentially indicating a specialist market in reward managers and a flow of their expertise across organisations. Diffusion of standard reward mix practice may also occur through the activities of consulting firms and trade associations (DiMaggio & Powell, 1991). The use of consultants has been shown to have a legitimising effect (Barkema & Gomez-Mejia 1998, Main et al. 2008). The reward consulting profession is well established in the U.K. A Chartered Institute for Personnel Development survey (CIPD, 2008) found that 32% of organisations had used a consultancy service to provide benchmarking data. Benchmarking has been identified as a key factor assisting the spread of isomorphism (Eisenhardt, 1988; Crystal, 1991). Specific reward professional bodies are also in place as mechanisms by which firms can establish the practices of others and can replicate them. In the U.K., the largest is the CIPD which has a specific reward forum for reward professionals, which provides access to data so that firms can replicate the position of other ‘similar’ organisations. Practitioners have also taken it upon themselves to develop semi formal gatherings of those from similar sectors, through the establishment of groups such as the Financial Services Reward Networking Group, with the intention of sharing benchmarking data. Support is also evident from research on executive reward. Bender concluded that “companies used performance-related pay because their peers did, and because that legitimised them in the eyes of the establishment” (2004: 521). Ogden and Watson (2004; 2007; 2008) found that Remuneration Committees felt under significant political pressure, which led to policies shaped by comparisons to other companies, rather than analysis of performance consequences of reward decisions. This conclusion was supported by Main et al. (2008), who noted the significance remuneration committees place on the market in determining which measure of performance was used in long-term incentive schemes.

Finally, normative pressures stemming from "the collective struggle of members of an occupation to define the conditions and methods of their work ... and legitimisation for their occupational autonomy" (DiMaggio & Powell, 1991: 70). For example, the 'New Pay'[4] prescription that pay should be linked to performance (Lawler, 1995; Schuster & Zingheim, 1996), which has been widely promoted by the consultancies and professional bodies, despite concern that they may not be appropriate prescriptions for all types of organisation (White, 1996). Eisenhardt (1988) found that the key driver in determining reward mix was acceptance of the practice within the sector, rather than alignment with strategic goals.

Table 2 summarises studies that have used institutional theory to specifically examine employee reward mix determination. The support for institutional influences on reward mix determination is strong. Eisenhardt (1988) concluded that contextual conditions at the time of the organisation being established were particularly significant on mix choice and, once chosen, the reward mix had longevity. Van der Stede identified the presence of "intracorporate isomorphism" (2003: 268), reflecting the strong influence of parent companies on business unit reward mix decisions. Whilst relatively little is known about cross national reward practices (Werner & Ward, 2004), Segalla et al's (2006) examination of cross-national sales compensation practices concluded that culture influences reward mix decisions through the effect it has on managers. This led them to question the applicability of institutional theory's theoretical prescriptions for effective reward mix decisions in all scenarios, particularly where national boundaries are concerned. Fernadez-Alles et al (2006) found that reward mix policy incorporates popular reward trends and practices stating that "variable compensation is sometimes designed to reward not those particular practices and procedures that rationally should enhance the performance of the company but those that enhance its social standing and reputation in its institutional context" (2006: 963).

The research on reward mix determination appears to show that institutional pressures are influential. However, the theory does not fully explain differences in practices between organisations. Critics argue that institutional theory fails to fully incorporate individual organisational strategic and leadership goals (Hambrick, 2007; Oliver, 1991). Given that reward mix can be changed without increasing costs (Lazear, 1998), then organisations may face less difficulty in differentiation themselves in this area. "[P]ay mix is where the action is in differentiating organisations" (Gerhart & Milkovich, 1992:669). In addition, despite the iso-morphic pressures that appear to exist, examples show changes in reward mix policies are occurring, such as the introduction of different types of performance related pay, closing of defined benefit pension schemes and the introduction of work-life balance initiatives (Armstrong & Brown, 2005). So, as with agency research, it would appear that the institutional theory explanation of mix determination is also incomplete.

[4] 'New Pay' became a label to what Lawler described as designing reward systems such that they attract and retain the individuals whose behaviour is consistent with that required for success and aligning costs of reward to the organisation's ability to pay at different points in its life cycle (Lawler, 1995).

Table 2: Studies that have used institutional theory to examine reward mix decisions

Study	Objective	Reward mix	Theory	Setting	Findings
Eisenhardt 1988	Evaluation of when organisations use salary compensation as opposed to compensation based on performance	Salary: Commission	Agency / Institutional	Retail sales	The store age is negatively related to the use of salaries and positively related to the use of commissions. Commissions are more common in shoe sales than in other types of retailing
Conlon and Parks 1990	How behaviour monitoring, and the presence of tradition of non contingent pay, interact to affect compensation arrangements	Fixed : variable	Agency / Institutional	Experiment on MBA / Graduates	Pay traditions can inhibit the economically rational thinking predicted by agency theory
Taras 1997	Assessment of the impact of managerial objectives on wage policies	Significance of wage	Institutional	Canadian petroleum industry	Managerial Objectives – in particular, a tendency toward imitative behaviour and a strategy of union avoidance – influences wage mix
Milne 2001	Investigation of the pattern of adoption of an HMO option as a component of a multiple choice health insurance plan	Adoption of HMO medical plans	Institutional / Resource dependency theory	US	Several factors both internal and external affect the responses of management
Van der Stende 2003	Examining the influence of variations in national culture on incentive mix	Percentage of compensation that is performance dependent	Institutional / Hofestede's cultural dimensions / Contingency	Belgian multi national enterprises	Corporate effects are dominant over national cultural effects with respect to incentive pay systems. Incentive systems tend to be uniformly implemented within firms
Segalla et al 2006	Investigation of why managers choose one sales compensation form than another	Fixed : variable	Expectancy, agency, Institutional, Hofstede's cultural dimensions	Branch banking in six European countries	Consideration of national culture was significant when designing sales force compensation
Fernadez-Alles et al 2006	Analysis of whether compensation design is an economically rational incentive to increase performance or whether it responds to other factors such as the search for legitimacy	Extent of variable compensation	Agency / Institutional	Middle managers in Spanish banking	Compensation design takes into account the company's adoption of popular management practices that increase its legitimacy but not necessarily its performance. Reward mix design often has social objectives, such as the search for legitimacy, as institutional theory suggests

Resource Dependency Theory

Resource dependency theory proposes that individuals and organisations have a desire to reduce their dependency on others, in order to increase the power they have over their own future (Pfeffer & Salancik, 2003). The extent to which an organisation is dependent on employees depends on whether employees are deemed as critical and the availability of substitutes for these employees. Employees are critical if their removal from the organisation would cause material disruption to the organisation (Pfeffer & Salancik, 2003). Dependence on an individual, or group of individuals, is likely to influence reward mix for this group (Tremblay et al., 2003; Pfeffer & Davis-Blake, 1987). Bartol and Martin (1988) raise seven factors that influence the level of dependence an organisation has on employees, and consequently the power they have over their reward mix. First, is the task uncertainty around the activities carried out by the employee where, due to the complexity of the task, the manager is unable to direct the activity. This is often the case for specialist research jobs (Balkin & Bannister, 1993). Second, is the extent to which performance can be monitored. Third, is performance visibility, defined as whether failures and successes are visible to both management and significant external parties. Management are also more dependent when employees have skills that are difficult to replicate. Replicability is also related to the fifth of Bartol and Martin's factors – replaceability. Where skills are difficult to replace, then organisations will be more dependent on those performing those skills. Next, the more important the task performed is to the organisation's success, then the more likely the organisation is to be dependent on the individuals performing the task. Finally, individuals with connections to powerful others, such as internal senior level sponsors, potentially provide increased power for those individuals.

A number of papers have examined the effect resource dependency may have on reward decision making and to a more limited extent reward mix decisions. Morgan and Miller (1992) showed how the proportion of women in an organisation influenced the extent that family friendly policies constituted part of the mix. However, the work can be criticised as the results did not meet tests of statistical significance and there was no indication as to whether the proportion of women controlled what were deemed to be critical resources, and therefore had power to dictate terms more aggressively. Resource dependency theory has been applied to the determination of CEO reward mix (Elvira, 2001). Studies in this area include Finkelstein and Hambrick's (1995) examination of the effect of ownership structure on CEO reward and Crystal's work on CEO and compensation consultant's role in executive pay determination (Crystal, 1991). Elvira (2001) noted that most incentives are paid at managerial and professional levels, due to attraction and retention considerations driven from higher levels of resource dependence for these types of roles. These studies suggest reward mix is influenced through the power dependency gives employees to negotiate mix in line with personal preferences, not organisational alignment. Fiss (2006) however challenged this resource dependent perspective. In his study of the social influence of the CEO on company boards, he argued that the strength of this social relationship was a significant driver of the top management team's compensation, not, as resource dependency predicts, scarcity of key human resource skills.

However, at lower levels Nienhuser (2008) found that organisations look to the market to recruit others with the required skills and thus reduce their dependency on them. Where this is not possible the dependency makes these staff more powerful. Consequently, organisations look to tie them into the organisation, through more attractive benefits and other forms of financial 'tie-in'. This supports the earlier conclusions of Balkin and Bannister (1993) that organisations will look to reduce uncertainty of operation by using means to reduce their dependency, or at least create mutual dependency through reward structures between the organisation and the critical individuals.

Union representation may also create a form of dependency and consequently influence reward mix for the workforce (Budd, 2004). Freeman and Medoff (1981) showed how unionised environments typically have a positive effect on benefit provision, due to the monopoly power they have in sectors where unions are strong, thereby increasing their bargaining power. Also, they provide a collective voice to employees. This may mean that benefits are increased as democratic preferences of employees are heard (Freeman & Medoff, 1981). Kaufman (2002) showed how the collective voice provided by unions was likely to lead to lower proportions of variable pay in the overall mix. Other research has supported these conclusions, showing in particular, that the proportion of benefits in the overall mix has fallen when union density has declined (Budd, 2004; Bloom & Freeman, 1992).

Balkin and Bannister (1993) examined how reward mix may be influenced by the relative power of certain employee groups holding critical positions by the specialist nature of their roles, the autonomy they have in how they operate and the overall effect they have on organisational performance. They conclude that the determining factor for the mix for specialist groups is the preferences they have to participate personally in higher returns relative to their risk tolerance. They concluded that the more powerful the individual or group is, the more the organisation will do to meet their preferences in reward mix. Managers may also be willing to overlook other reward issues, such as internal and external equity with other groups of staff. Consistent with resource dependence theory, this suggests that management will have greater control over reward mix for non critical groups of employees on whom they are less dependent.

Gomez-Mejia and Balkin also examined what they termed "strategic employee groups" (1992: 101). They also concluded that the reward mix of these critical groups should be tailored to better align to their preferences. In addition, they also noted a knock on effect on the reward mix of other 'non strategic groups'. They speculated, in contrast to Balkin and Bannister's (1993) conclusions, that this was down to organisations not wanting to totally separate reward mix for these critical groups of employees from other employee groups for internal equity reasons. Gustman et al. (1994) lent support to this view, finding that pension plans, whilst having a cross organisational structure, are sometimes built with particular employee groups in mind.

Abbott and De Cieri (2008), found that different environmental conditions were seen to influence the respective power of employees and consequently the extent of work-life benefits. They concluded that specific work-life balance provision is organisationally context specific and the influence of employee power is relevant. This, although not the focus of the study, provides some support for a resource dependency perspective on benefit provision. However, we need to exercise care in drawing too strong a conclusion from this work, given it focuses only on two companies, and with respect to reward mix, the fact that it is not examining the relative balance of the work-life benefit component relative to other elements of the mix.

From the above discussion, we can see that we only have a limited understanding of the influence resource dependence may have on reward mix, and the impact its provisions may have on organisational decision makers, when we may expect the approach to have some predictive capabilities. The literature examined, although identifying the link between resource dependency and reward mix decisions, is relatively limited. In addition, Neinhuser (2008) concludes that, although there is much confirming empirical evidence for resource dependency theory, it is not always strong and does not always explain a high proportion of variance in the situations reviewed. This led him to conclude that it may need combining with other theories to improve our understanding of the situation being examined.

Combining Theoretical Insights

Whilst agency contingency has emerged as the dominant perspective through which reward mix determination has been examined, the other theoretical viewpoints have been shown to potentially have further explanatory power. The approaches examined are summarised in table 3.

Agency, contingency and resource dependency theories assume that the interests of the organisation will prevail. Barringer and Milkovich termed this a “rational response”, noting that underpinning the rationality was the assumption “that organizations actively manage environmental constraints, adopting structures that ensure the flow of resources, or minimize agency or transaction costs” (1998: 312). This can be contrasted with an institutional perspective, which they stated “assumes that organizations do not exercise active choice; rather they more passively conform to their environments” (1998: 312). Enhanced legitimacy was a separate objective from considerations of efficiency.

Table 4 summarises a number of research papers that have explicitly adopted combinations of the theoretical approaches of agency, institutional and resource dependency in examining reward strategy for employees. The range of studies employing both agency and institutional theory have generally concluded that the addition of institutional factors have enhanced results, given the partial understanding that agency research has brought (Eisenhardt, 1988; Trevor, 2008; Fernandez-Alles et al., 2006; Barringer & Milkovich, 1998; Conlon & Parks, 1990). Eisenhardt concluded that “the institutional emphasis on tradition complements the efficiency emphasis of agency theory, and the result is a better understanding of compensation” (1988: 72). Barringer & Milkovich (1998) felt resource dependency agency and transaction cost theories were predominately efficiency theories and were complemented by institutional theory which emphasises external pressures. Ear-

Table 3: Summary of agency, resource dependence and institutional theory

	Agency	Resource Dependence	Institutional
Purpose of reward mix decisions	Minimise shirking when monitoring is difficult / costly	Acquisition of business critical resources	Conformity with other organisations and market practice to gain legitimacy
Main Assumptions	Rational decisions People are self interested, risk averse Goal conflict exists between owners and employees Information asymmetry	Rational decision Control of critical resources leads to power	Organisations seek legitimacy Organisations conform to norms Process of satisfycing behaviour
Organisational reaction	Rational active management	Rational active management	Passive conformity or rational legitimacy seeking
Implications for reward mix	Relative weight of incentives versus fixed reward will be managed to optimise the alignment of agent and principals interests	Reward mix will be influenced by the relative strength of employee groups determined by their criticality to organisation success	Reward mix will be influenced by coercive, mimetic and normative pressures and the extent to which operating within these norms confers legitimacy

lier Eisenhardt (1989) noted how institutional and resource dependency are stronger when efficiency is not a pressing concern, giving large public bureaucracies as examples. Conlon and Parks (1990), in an experiment with MBA and undergraduate students, found that the institutionalisation of practises may come down to the influence of particularly powerful bodies. Resource dependency suggests these members would be those controlling critical resources. Their study led them to conclude that pay traditions, which may not be economically efficient, play a significant role in influencing reward mix. Whilst the results appear robust in the laboratory setting, their operationalisation of pay traditions in the fictional industry, i.e. telling the actors that a certain tradition did/did not exist, is questionable given the complexity with which institutional factors are formed and manifested in organisational life (DiMaggio & Powell, 1991).

Table 4: Combinations of agency, institutional and resource dependency theories

Study	Perspectives	Purpose
Eisenhardt 1988	Agency, institutional	Evaluation of when organisations use salary compensation and when they use compensation based on performance
Barringer and Milkovich 1998	Agency, institutional, resource dependence, transaction cost	Theoretical examination of the adoption and design of flexible benefit systems
Conlon and Parks 1999	Agency, institutional	How behaviour monitoring, and the presence of tradition of non contingent pay, interact to affect compensation arrangements
Milne 2001	Institutional, resource dependence	Investigation of the pattern of adoption of an HMO Option as a component of a multiple choice health insurance plan
Elvira 2001	Agency, resource dependency, power	Examination of the relationship between bonuses and promotions and whether these incentives are traded off
Tremblay et al 2003	Agency, resource dependence, transaction cost	Investigation of the influence of the theoretical perspectives on the proportion of salary in sales compensation
Segalla et al 2006	Expectancy, agency, institutional, Hofstede's cultural dimensions	Investigation of why managers choose one sales compensation form than another
Yanadori & Marler 2006	Agency, resource dependence	Examining whether innovation strategy effects compensation decisions in the high technology sector
Fernandez-Alles et al 2006	Agency, institutional	Analysis of whether compensation is designed as an economically rational incentive to increase organisational performance or whether it responds to other factors such as the search for legitimacy
Festing et al 2007	Resource dependence, institutional, cultural dimensions	Analysis of power relations in multi national enterprises and their influence on compensation strategies
Trevor 2008	Agency, institutional	Exploration of the contemporary realities of compensation strategy what, how and significantly why organisations are structuring reward as they are