

# The Political Economy of Rewards Management: A Critical Framework for Resource Allocation in Organizational and Political Systems

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## ABSTRACT

This review article examines how principles of rewards management, as detailed in the Society for Human Resource Management (SHRM) Foundation's guide *Implementing Total Rewards Strategies* (Heneman, 2007), provide a microcosmic framework for analyzing the fundamental political science question: *Who gets what, when, and how?* By integrating classical political economy (Smith, 1776; Ricardo, 1817) with dependencies theory (Cardoso & Faletto, 1979; Dos Santos, 1970), we demonstrate how organizational reward systems function as allocation regimes that reproduce, negotiate, and occasionally transform broader structural inequalities. This analysis reveals rewards management as applied political economy, bridging theories of value, power, justice, and governance.

**Keywords:** Rewards Management, Political Economy and Resource Allocation

## INTRODUCTION

### The Political Nature of Organizational Rewards

Harold Lasswell's (1936) classic definition of politics—"who gets what, when, and how"—finds its organizational expression in rewards management systems. The Society for Human Resource Management (SHRM) Foundation's guide to total rewards (Heneman, 2007) outlines comprehensive strategies for allocating organizational resources through compensation, benefits, development opportunities, and work environment enhancements. However, beneath this technical framework lies a complex political economy that mirrors broader societal allocation processes. This article argues that rewards management constitutes a micro-level political system where principles of classical economics, dependencies analysis, and institutional theory converge to shape distributional outcomes. By examining how organizations determine eligibility, measure contribution, and allocate rewards, we uncover fundamental dynamics of power, justice, and governance that extend beyond corporate boundaries to illuminate core questions in political science and political economy.

### Classical Foundations: Smith and Ricardo on Value and Distribution

Adam Smith's (1776) foundational work established labor as the source of value and market mechanisms as natural allocators of reward. Modern rewards systems operationalize Smithian principles through market-based compensation, where "salary surveys are conducted to look at average salaries paid and to determine the external value of these same jobs relative to the rates paid by similar organizations" (Heneman, 2007, p. 21). This market benchmarking reflects Smith's concept of the "natural price" of labor, where compensation theoretically aligns with contribution to productivity. Similarly, merit pay systems embody Smith's recognition

that "the wages of labour vary with the ease or hardship, the cleanliness or dirtiness, the honourableness or dishonourableness of the employment" (Smith, 1776, Book I, Chapter X).

David Ricardo's (1817) theories of comparative advantage and economic rent provide additional analytical tools. In organizational contexts, certain roles command disproportionate rewards not merely due to productivity but due to scarcity and positional advantage—what Ricardo would term "differential rent." The SHRM report acknowledges this through its discussion of skill-based pay, where "an organization that used skill-based pay in one facility enjoyed 55% higher productivity and 17% lower labor costs than a comparable plant that did not use skill-based pay" (Heneman, 2007, p. 22). This premium reflects Ricardian rent derived from scarce capabilities rather than marginal productivity alone. Furthermore, executive compensation often represents what Ricardo would identify as positional rent—rewards accruing from hierarchical position rather than marginal contribution.

However, both Smith and Ricardo assumed relatively efficient markets and minimal institutional interference. Organizational reality presents administered markets where "pay grades specify a range of values assigned to a job" (Heneman, 2007, p. 21), creating institutionalized constraints on market forces. This tension between market principles and organizational administration reflects broader political-economic debates about the role of institutions in shaping distributional outcomes.

### **Dependencies Theory: Structural Inequality in Reward Allocation**

Fernando Henrique Cardoso and Enzo Faletto's (1979) analysis of dependent development provides a powerful framework for understanding structural inequalities within organizational reward systems. They argued that peripheral economies develop in ways that reinforce their subordination to core economies—a dynamic replicated within organizations through core-periphery reward structures. In corporate contexts, core roles (typically executives, strategic functions, and R&D) receive disproportionately high rewards, development opportunities, and decision-making influence, while peripheral roles (administrative support, outsourced functions) receive minimal rewards and limited advancement paths. The SHRM report institutionalizes these dependencies through its emphasis on eligibility determination, noting that "in the past, only executives and sales personnel were eligible for incentives" though now "all employees... are eligible for most total rewards strategies" (Heneman, 2007, p. 27). This historical exclusion and gradual inclusion pattern mirrors Cardoso and Faletto's analysis of how access to resources becomes structurally determined.

Theotônio dos Santos' (1970) concept of "new dependency"—where technological and industrial dominance replaces colonial extraction—further illuminates contemporary reward dynamics. In knowledge-intensive organizations, premium rewards flow to roles controlling critical technologies or proprietary knowledge. The SHRM report recognizes this through its discussion of competency-based pay and retention strategies for specialized talent. Dos Santos would identify this as a form of technological dependency, where organizations become structurally reliant on certain skill sets, creating internal hierarchies of value and reward. This dependency manifests in the report's acknowledgment that "many small and medium enterprises (or 'SMEs') must finance technological and capital improvements in order to grow" (Heneman, 2007, p. 32), often at the expense of equitable reward distribution.

These dependencies are further reinforced through what the SHRM report terms "lead versus lag" strategies. When rewards are used as lead systems—"putting the right rewards in place will encourage your workforce to accomplish key strategic goals" (Heneman, 2007, p. 28)—they proactively shape behavioral dependencies. When used as lag systems, they reinforce existing power structures by rewarding already-successful execution. This dual function parallels how political-economic systems use both anticipatory incentives and retrospective rewards to maintain structural relationships.

### **Institutional Design: The Political Architecture of Reward Systems**

The SHRM report's recommended implementation process—assessment, design, execution, and evaluation—constitutes a comprehensive institutional architecture for allocation decisions. This four-phase approach creates what North (1990) would identify as an institutional framework establishing "the rules of the game" for resource distribution. The assessment phase, with its emphasis on "conducting focus groups and industry

benchmark surveys, examining current reward strategies and employee attitudes toward them" (Heneman, 2007, p. 18), serves as an institutionalized mechanism for information gathering and agenda setting. This process mirrors political systems' policy formulation stages, where problem definition precedes solution design.

The compensation philosophy statement recommended in the design phase functions as what political scientists would term a "constitutional document"—establishing foundational principles for allocation. This statement addresses questions that parallel constitutional design in political systems: "Who should be eligible for rewards? What kind of employee behaviors and values should be rewarded? What types of rewards would work best?" (Heneman, 2007, p. 20). By answering these questions, organizations establish legitimate bases for distribution, creating what Weber (1978) would identify as rational-legal authority for reward decisions.

The proposed project team structure further institutionalizes separation of powers within the reward system. With "senior management" holding "ultimate authority for the total rewards project" while "a separate subcommittee, each headed by a project team member who reports back to the larger task force, takes responsibility for each element of the company's compensation system" (Heneman, 2007, p. 18), this structure creates checks and balances reminiscent of constitutional governance. This institutional differentiation prevents concentration of allocative power while enabling specialized governance of different reward domains—a corporate parallel to political systems' separation of legislative, executive, and judicial functions.

### **Power Dynamics: Information, Resistance, and Control**

The SHRM report's discussion of pay secrecy versus transparency reveals fundamental power dynamics in reward allocation. The costs of secrecy include that "employees question the system's fairness. They overestimate pay levels received by colleagues. Trust in the organization erodes" (Heneman, 2007, p. 21). Conversely, benefits include that "conflicts between employees or between employees and managers regarding pay occur less frequently" (Heneman, 2007, p. 21). This tension reflects broader political struggles over information as a power resource, where control over knowledge enables control over allocation legitimacy.

Foucault's (1977) analysis of power/knowledge relationships illuminates how reward information management constitutes a form of disciplinary power. When organizations reveal "minimums, midpoints, and maximums in pay grades while keeping individual salaries private" (Heneman, 2007, p. 21), they create a panopticonic system where employees know the boundaries but not the specifics of distribution. This controlled transparency enables managerial discretion while maintaining sufficient legitimacy to prevent overt resistance—a corporate parallel to what Scott (1990) identifies as "public transcripts" versus "hidden transcripts" in power relations.

Union involvement represents another dimension of power negotiation in reward systems. The report notes that "unions historically have favored rewards based on seniority rather than performance" (Heneman, 2007, p. 31), creating tension with performance-based systems. This conflict reflects broader class-based struggles over distribution principles, where seniority represents collective security while performance represents individual meritocracy. The recommended approach—"involv[ing] the union in the execution phase at a minimum, and in the assessment and design phases if possible" (Heneman, 2007, p. 31)—represents what Korpi (1978) would term power resource mobilization, where inclusion becomes a mechanism for co-optation or genuine power sharing depending on implementation.

### **Justice Frameworks: Competing Principles of Fair Distribution**

Reward systems implicitly embody competing theories of justice, creating what Walzer (1983) would identify as "spheres of justice" within organizations. The SHRM report reveals multiple justice frameworks operating simultaneously. Utilitarian principles appear in incentive designs aimed at maximizing productivity, where "individual incentives exert the most powerful impact on productivity of all total rewards practices, usually increasing productivity by about 30%" (Heneman, 2007, p. 23). Rawlsian concerns for fairness emerge in discussions of transparency and due process, particularly regarding "how their pay is determined" (Heneman, 2007, p. 30). Meritocratic principles dominate discussions of performance-based rewards, while egalitarian considerations appear in concerns about excessive differentials and minimum standards.

Procedural justice receives significant emphasis, reflecting political science insights about the importance of legitimate processes. The report stresses that "employees need to know that their input was carefully considered; otherwise you may lose valuable support for the project" (Heneman, 2007, p. 20). This concern parallels Tyler's (1990) findings about procedural justice in political contexts, where fair processes enhance compliance regardless of distributional outcomes. The recommended practices—consistent measurement, appeal mechanisms, transparent communication—create what Rawls (1971) would identify as "pure procedural justice," where proper processes legitimate outcomes.

Distributive justice concerns manifest particularly in discussions of pay differentials and equity. The report acknowledges that "broadbanding definitely has its advantages, [but] it can also lead to increased labor costs" (Heneman, 2007, p. 22), creating tensions between flexibility and equity. Similarly, concerns about discrimination lawsuits highlight legal dimensions of distributive justice, where "the team could periodically audit or review compensation decisions' impact on employees in various categories such as age, race, sex, color, religion, and national origin" (Heneman, 2007, p. 31). These concerns reflect broader societal debates about affirmative action and equal opportunity in resource allocation.

### **Globalization: Transnational Politics of Reward Allocation**

The SHRM report's acknowledgment of cross-cultural differences reveals how reward systems operate within transnational political economies. The observation that "employees in one country might view a particular reward as fair while those in another country may consider the same practice unfair" (Heneman, 2007, p. 31) reflects what Hofstede (2001) identifies as cultural dimensions shaping justice perceptions. This cultural variability creates challenges for multinational corporations seeking consistent global frameworks while accommodating local contexts—a corporate parallel to debates about global governance versus national sovereignty.

The report's specific examples—"Chinese and U.S. reward practices differ markedly" and "a form of gain sharing is heavily governed by law in many French organizations" (Heneman, 2007, p. 31)—illustrate Hall and Soskice's (2001) varieties of capitalism at the organizational level. Liberal market economies (like the U.S.) emphasize individual performance and market flexibility, while coordinated market economies (like France) incorporate stronger institutional regulation and social partnership. These national differences create what Streeck and Thelen (2005) would identify as institutional complementarities, where reward systems align with broader political-economic structures.

Globalization also creates new forms of dependency within multinational corporations. The report notes that "many leading U.S. companies use similar total rewards strategies in the different countries in which they operate" (Heneman, 2007, p. 31), potentially imposing headquarters' reward logics on subsidiaries. This dynamic replicates Cardoso and Faletto's (1979) analysis of how core economies shape peripheral development, with corporate centers establishing reward norms that may not align with local contexts or needs.

### **Synthesis and Implications: Rewards Management as Applied Political Economy**

The SHRM Foundation's guide to rewards management, when analyzed through political-economic lenses, reveals fundamental allocation dynamics that extend far beyond human resource management. Several key insights emerge:

First, reward systems constitute micro-political economies where classical theories of value, dependencies analyses of inequality, and institutional theories of governance converge. Smith and Ricardo help us understand how organizations conceptualize and measure value; Cardoso, Faletto, and Dos Santos help us analyze how reward structures reproduce core-periphery relationships; institutional theory helps us comprehend how allocation rules become embedded and legitimated.

Second, the design and implementation of reward systems involve political choices with distributional consequences. Whether emphasizing individual versus collective rewards, monetary versus non-monetary recognition, or short-term versus long-term incentives, organizations make ideological choices about human motivation and social organization. These choices reflect and reinforce broader political-economic orientations

toward individualism versus collectivism, market versus institutional allocation, and competition versus cooperation.

Third, reward systems function as sites of power negotiation and resistance. Through information management, union involvement, and procedural design, organizations and their members negotiate distributional authority. These negotiations reveal fundamental tensions between managerial prerogative and employee voice, between efficiency and equity, and between organizational control and individual autonomy.

Fourth, globalization complicates reward politics by introducing cross-cultural and transnational dimensions. Multinational corporations must navigate between global integration and local adaptation, between headquarters' norms and subsidiary contexts, and between universal principles and particular practices. These navigations replicate broader global governance challenges at the organizational level.

Finally, the evaluation of reward systems serves political functions beyond mere technical assessment. By measuring outcomes and interpreting findings, organizations legitimate allocation decisions, maintain accountability, and enable adaptation. This evaluation process mirrors how political systems use policy assessment to justify, critique, and reform distributional arrangements.

## CONCLUSION

### Toward an Integrated Political Economy of Allocation

Rewards management, as detailed in the SHRM Foundation's guide, provides a rich laboratory for studying fundamental questions of political economy. By examining how organizations determine *who gets what, when, and how*, we gain insights into value theory, power dynamics, justice principles, and governance mechanisms that extend to broader political systems.

Future research should build on these insights in several directions. First, political economists should apply organizational reward frameworks to analyze public sector compensation and social policy design. Second, comparative analyses should examine how national varieties of capitalism manifest in organizational reward systems. Third, critical studies should investigate how reward systems reproduce or challenge broader socioeconomic inequalities. Fourth, normative analyses should develop justice-based frameworks for reward design that balance multiple ethical considerations.

Ultimately, the strategic allocation of rewards—whether in corporations or states—represents a fundamental political act that shapes social relations, power structures, and collective outcomes. As organizations increasingly recognize rewards as strategic tools for achieving business objectives, political scientists should recognize them as concentrated expressions of allocation politics in all human collectives. By integrating insights from classical political economy, dependencies theory, institutional analysis, and justice frameworks, we can develop more sophisticated understandings of how resources are distributed, contested, and legitimated in organizational and political life.

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