

Conceptual Framework on Reward Systems in Organizations for Success and its Impacts: A Wide View

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ABSTRACT

Organizations in both the public and indeed the private sector consider their employees as a critical asset in the organization towards the attainment of the organizational goals. As a consequence of competitive markets, technological advancements and globalization, organizations are facing challenges in retaining their human capital. In addition to the direct costs, the exit of employees also implies the loss of valuable intellectual capital and thus competitive advantage changed essential frame of reference for considering issues of human resource management. Traditional sources of success such as product and process technology, protected markets, economies of scale, etc. can still provide competitive leverage but an organization's human resources are more vital for its sustainability. In order to retain its staff, organizations often focus on main retention strategy as rewards could be effective in reducing the risk of staff turnover in organizations through their relationship with effective commitment and motivation. Organizational reward systems play a critical role in enhancing employee satisfaction as the primary aim of the reward system is to enhance performance and extrinsic motivation by satisfying an individual employee's needs. This study will have lots of contributions to the business world. Organizations may improve or change their reward systems to survive in today's environment with the help of this study. They may renew their reward systems and put more efficient and effective ones.

Keywords: Reward, Strategy, Performance, Satisfaction, Motivation, Commitment

1. INTRODUCTION

In this era of globalization, every organization in the world improving its business and to keep the pace of achieving goals an organization tries their best to hire competent human resource. Employing competent human resource, organizations have to offer better working environment, market based salaries, job security, empowerment. The people who make up an organization -human- resources- are considered to be one of the most important resources of today's firms. Most organizations try to boost employee willingness to work harder by incorporating various rewards in their compensation systems. Organizational reward system has been found to play a critical role in enhancing employee satisfaction. Rewards range from merit increase of the salary to innovative non-financial rewards such as season tickets for their favorite sports team and hand-written thank you letters. Despite the common belief that people value their jobs mainly for the pay, Strumpel (2005) argues that employees with steady jobs who are fairly satisfied with their incomes are more interested in non-material aspects of the job. Thus, understanding and getting into a deeper as well as wider view of the conceptualizations of reward systems is been carried out.

2. TRENDS FROM RESEARCH LITERATURE

Chiang and Birtch (2009) who noted that employees will work harder if they value monetary rewards believe that those awards will result from their increased efforts.

Mondy(2008) claims that rewards can predict employee performance as the more challenging a goal is, the higher the performance level becomes and the higher the perceived satisfaction.

The expectancy theory, suggests that employees are more likely to be motivated to perform when they perceive that there is a strong link between their performance and the reward they receive (Mendonca, 2002).

Barber and Bretz (2000) mentioned that reward management systems have major impact on organizations capability to catch, retain and motivate high potential employees and as a result getting the high levels of performance.

Bishop (1987), on the other hand has studied about employee performance and found that recognition and reward of employee performance leads to differentiation between the productivity of the employees.

According to Tomlinson (2010) performance based reward schemes often have support from top management because they believe that such schemes provide employees with the challenge of being accountable to their own contribution to job performance.

Performance based compensation system logic advocates setting of clear and challenging performance objectives for employees in order to motivate their performance (Locke, 2004). It builds on the idea of setting performance targets that are expected to act as an incentive for improved performance when employees strive to achieve them in order to qualify for rewards.

Armstrong (2006) points out that the development of systems of rewards, recognition and career opportunities as one of several critical tasks of management in the information-based companies and in their research,

employees named respectful treatment and recognition as one of the six less costly and perhaps more effective “management levers” to be exercised by management in their efforts to attract, motivate and retain workers since employees consider such factors to be important.

The expectancy theory, suggests that employees are more likely to be motivated to perform when they perceive that there is a strong link between their performance and the reward they receive (Mendonca, 2002).

Ramlall(2004) explained that an individual estimates an outcome to be positively valence once the outcome is considered wanted in other words once the reward matches one’s personal goals.

3. REWARDS

A reward is defined as all of the monetary, non-monetary, and psychological payments that an organization provides for its employees (Bartol and Locke, 2000). According to Eric (1994), rewards can be defined as various different benefits that are offered to employees in exchange for work or value. Reward is a strategic human resource management policy that aims to recognize the contributions of employees to the organization as a part of employment relationship contract (Martocchio, 2014; Milkovich et al., 2014). In organizations, reward is an important issue that has to be effectively managed by the administrators, especially human resource managers. A reward is presented after the occurrence of an action with the intent to cause the behavior to occur again. Such recognitions include, paid time off, employee of the month programs, access to training programs, to mention a few and are given mainly to appreciate the performance of employees and to motivate them. This is because motivated workers lead to higher productivity and the organization as a whole prospers.

3.1 Need for the study on Performance based Rewards

The allocation of reward to the employees based on their actual performance is very important in order to

- bridge the gap between the wages of workers,
- meet the basic needs of competent employees,
- improve the quality of life,
- well-being and their status in society,
- attract, retain and motivate good employees,
- support the ultimate goals of workplace reward administration,
- aid in efficiency, fairness, compliance with laws and regulations, and ethics (Milkovich et al., 2014; Ismail et al., 2014),

- lead to the sustaining and achieving of the organization and human resource management department’s strategies and goals,
- result in achievement, recognition, influence, learning new skills and personal growth.

To access positive motivational properties, the distributed rewards made by organizations must be based on performance.

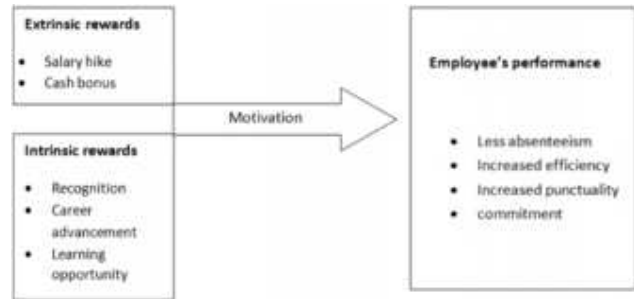


Fig - 1: Diagrammatic relationship between rewards, performance and motivation

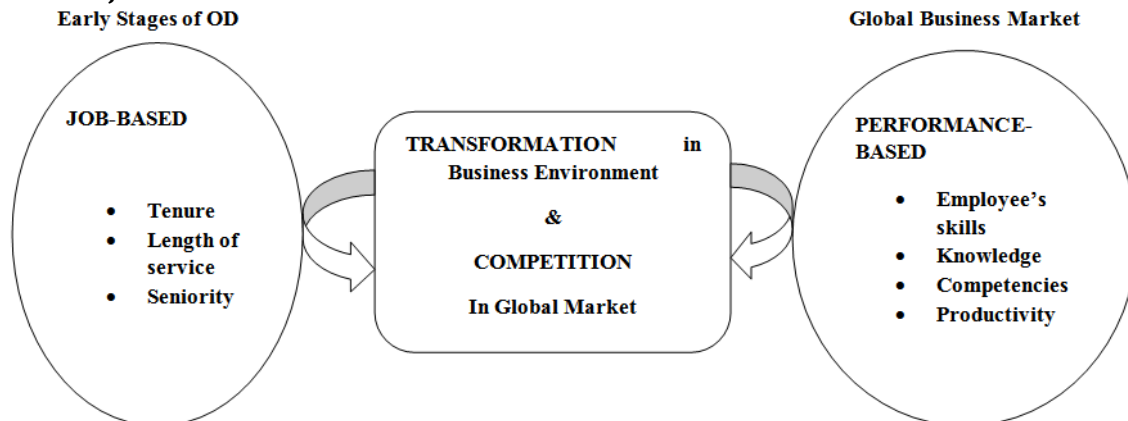
3.2 Reward - a Professional Motivator

Rewards is one of the important elements to motivate employees for contributing their best effort to generate innovative ideas that lead to better business functionality and further improve company performance both financially and non-financially.

Edward and Christopher (2006) have mentioned that people do not automatically come to work, continue to work, or work hard for an organization. We see that people need motivation to share and fulfill the organization’s vision. Undoubtedly, reward strategy and systems are the mechanisms that make this happen. A job reward has been found to be a strong determinant of job satisfaction and also rewards are significantly related to professionalism.

Appropriate rewards and benefits need to be devised in an organization because this action will help in motivating employees and minimize turnover. Financially, profit-sharing plans that create programs in which employees receive bonuses according to the company's profits. Towards this end, both employees and employer basically work for a common goal and mutual profit. This gives a great sense of ownership and an interesting financial advantage for the employees. Non-financial reward should also be provided to employees for their contribution.

4. Evolution of Job based Rewards to Performance based Rewards



5. REWARD SYSTEM

A reward system refers to programs set up by a company to reward performance and motivate employees on individual and/or group levels. Rewards may differ in that they may be intrinsic or extrinsic, direct or indirect, and financial or non-financial. Many different reward systems may operate within organizations. It is important to understand that a reward system will essentially impact individuals and team member's performance and engagement levels within the workplace. It is therefore crucial to implement an effective and efficient reward system based on each unique organization's needs. Over the years, the reward systems have changed within organizations from merely financially remunerating individuals to motivating them in the workplace as well. An organizational reward system should be designed to motivate employees in terms of higher performance, productivity, engagement and commitment levels. Furthermore, the rewards system should also match organizational strategies, goals and culture, as well as should ensure that organizations attract and retain their people. The alignment of the overall rewards system to organizational strategies will ensure workplace effectiveness, positive work outcomes and increased employee effort.

6. VARIOUS THEORIES on REWARD system

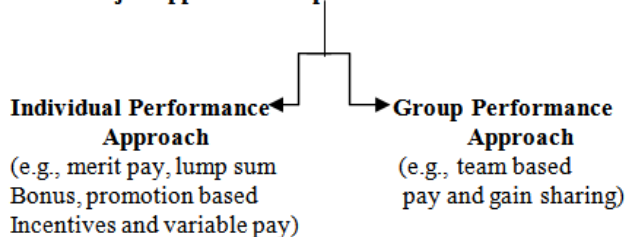
6.1. Three notable influential theories on reward strategies were summarized,

- **Maslow's Hierarchy of Needs** states that all people have the same needs and are motivated to fulfill these needs as they increase in complexity (Maslow, 1943, p. 370).
- **Herzberg's two factor theory**, which identified two factors that provide motivation for employees, motivators (job growth, advancement) and hygiene factors (policies, compensation) (Herzberg, 1968, p. 56).
- **Hofstede's cultural dimensions**: power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance, long term orientation, and indulgence versus restraint.

6.2. Equity Theory

Equity theory deals strongly with the aspects of organizational justice, whether the individuals feel that they are treated fairly at work or not. Ramlall (2004) posits that an individual on employee – employer relationship evaluates not only the benefits and rewards he or she receives and whether the input given to the organization is in balance with the output but also the relevance of inputs given and outputs received by other employees inside or outside the employing organization.

Two major approaches of performance-based reward



Gomez-Mejia and Balkin (2005) noted that in order to improve employee's performance, there is a need to equate rewards with employee's job effort for employees performing the same task, so that employees perceive that exerting more effort results in high rewards while less effort attracts less or no rewards. It is important that performance based compensation systems and other reward schemes, take into account this element of equity in order to motivate employees.

6.3. Reinforcement Theory/Operant Conditioning

A behavioral construct where control is achieved by manipulating the consequences of behavior might employ rewards for desirable behavior by staff and punishments for undesirable to help steer employees toward intended performance goals.

6.4. Social cognitive theory

It claims that rewards given for success of challenging performance standards may result in high motivation.

6.5. Agency theory

It provides insight into what reward mix best aligns organizational and individual objectives. It outlines how the separation of organizational activities from ownership presents the problem of ensuring that owner's interests are aligned to those responsible for operating the business. Owners look to ensure that employees direct their work effort in line with the owner's interests. This can be achieved through adjusting the reward mix, in particular the balance between fixed and variable rewards, to ensure that appropriate incentives are in place for the employee to act in the owner's interest

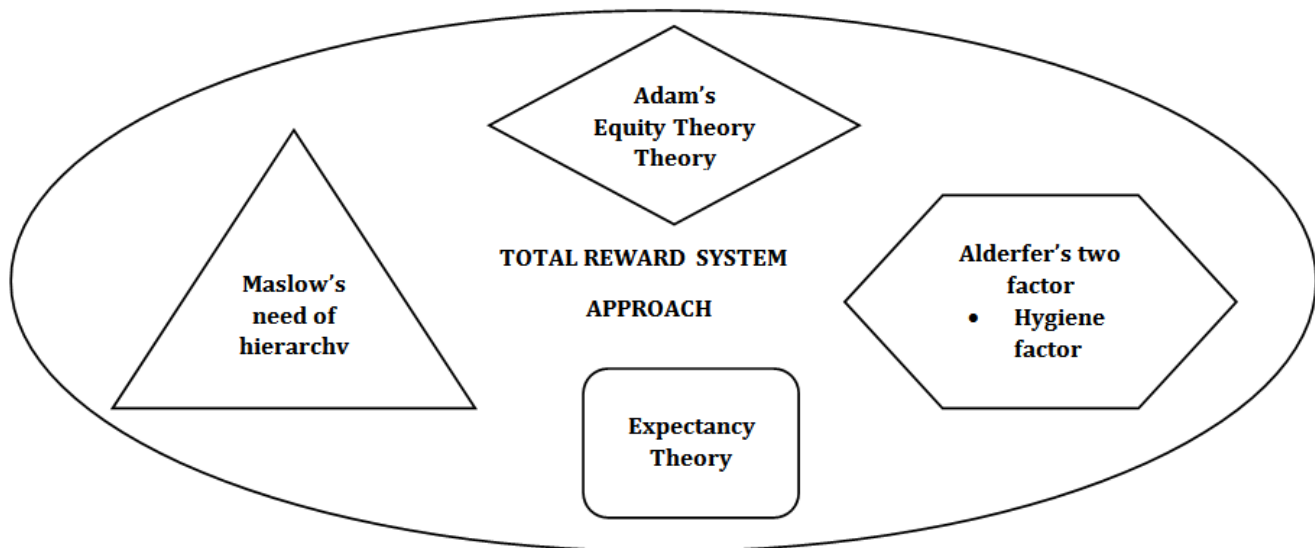
7. Various Approaches to Reward Strategy

According to Armstrong (2000, pg.232), reward strategy is the policy that provides specific directions for the organization to develop and design programs which will ensure its rewards, the performance outcomes supporting the achievement of its business goals.

7.1. The Total reward approach

Total rewards can be described as the sum of the values of each element of an employee's reward package and may include everything that employees view as important and of value within their job. It includes all type of rewards, direct and indirect, as well as intrinsic and extrinsic.

Reilly and Brown (2008) defined total rewards in terms of the value proposition the business has to offer to the employee : a firm's entire employee value proposition, including direct and indirect financial reward the work itself, career opportunities in the firm, social activities associated with the workplace, and Designing a total reward strategy that will ensure a well-integrated and cost-effective approach for employees to have clear understanding about the connections between their efforts, productivity and performance results between company results and their reward opportunities (Vicki, 1994). When total reward strategy is to be adopted, it must assure that employee's diverse needs must be well considered and all these theory will help the organization reach its performance expectation.



7.2. General Approach to Behavioral Psychology

Approach to psychology based on the belief that all human actions and responses can be explained in terms of reflexes conditioned by reward and punishment (carrot and stick). Drawing largely on the works of U.S psychologists John B. Watson and S. F. Skinner performance-based reward will strongly evoke positive subsequent employee outcomes (e.g., satisfaction, commitment, and performance). Thus, these positive outcomes may maintain and further enhance the organizational strategy and goals in an era of global economy. Within a performance-based reward model, many scholars state that communication, participation, performance appraisal and interactional justice are distinct, but strongly interconnected concepts.

8. TYPES OF REWARD SYSTEMS PREVAILING

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| <p>➤ MONETARY REWARDS
(salary increase, bonus system, perquisite)
Surprise Bonus Reward
Prospective or “ex ante” Contingent REWARD
RETROSPECTIVE or “ex post” REWARD</p> | vs | <p>NON-MONETARY REWARDS
Joint Reward System
Extrinsic Reward
Direct Reward (token of appreciation)
Indirect (financial security & better future)
Social Reward (shared goals)
Intrinsic Reward (satisfaction, growth, involvement, autonomy self-competency, individual experience)</p> |
| <p>➤ FINANCIAL REWARDS
Direct Rewards-
Pay/Salary, profit sharing, Fringe benefit, Bonus benefits, promotion
Indirect Rewards-
pension plans, paid vacations</p> | vs | <p>NON-FINANCIAL REWARDS
including recognition, empowerment, and delegation and promotion and title, authority and responsibility, education, appreciation and praise, vacation time, comfort of working place, social paid leaves, purchase discounts activities, feedback, flexible working hours, design of work, recognition, social rights etc.</p> |
| <p>➤ PERFORMANCE BASED REWARD
Piece work pay plans, incentive systems, group bonuses, Merit pay</p> | vs | <p>MEMBERSHIP BASED REWARD
increase in living cost, profit sharing, benefits, seniority, credentials</p> |

9. Influencing Factors on a Reward Proposal

- 1) **Maslow's Hierarchy of Needs**
- 2) **Herzberg's Two Factor Theory**
 - Intrinsic and Extrinsic reward influences (ex: Royal Bank of Canada RBC)
- 3) **Culture of an organization** (ex: Colgate-Palmolive)
 - Human / Individualistic Culture (ex: U.S)
 - Organizational / Collectivistic Culture
- 4) **Non-cultural / Additional influences**
 - Nature of an organization (profit-oriented, competitive)
 - Goals of an organization (efficiency, productivity, performance maximize)
 - Shocks to the operating environment (ex: Asian financial crisis).

9.1. Reward Proposal Strategy for Organization's Success



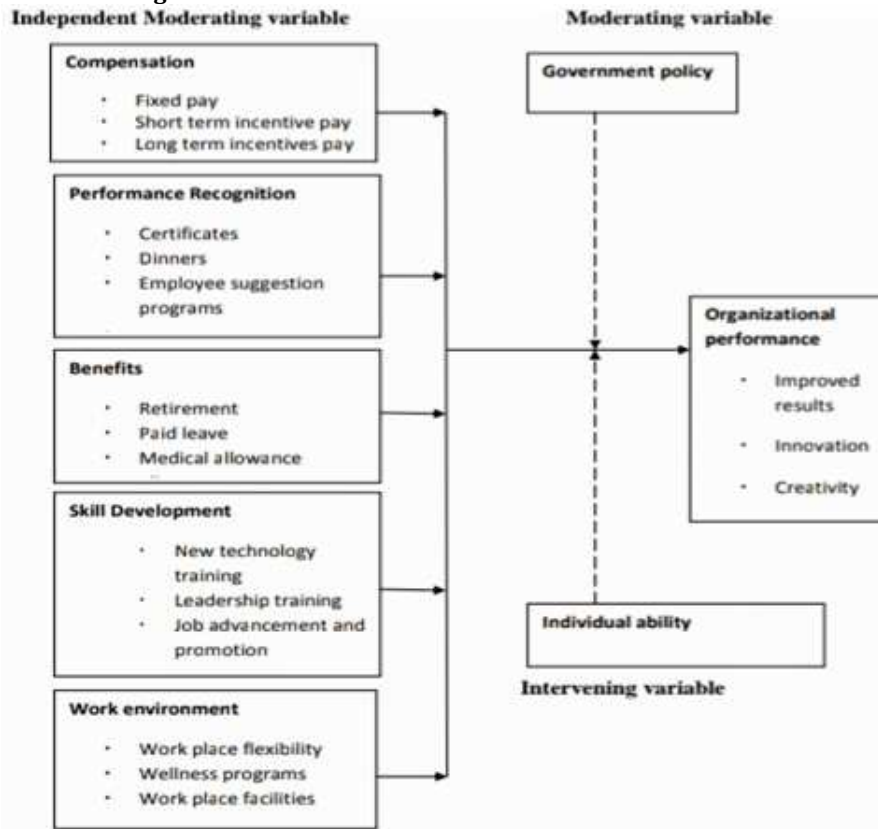
(Source: WorldatWork (2006), from www.worldatwork.org/pub/total_rewards_model.pdf)

Fig. 2, Worldatwork Total Rewards Model (Worldatwork, 2006 p.9)

10. Factors Supporting the Study

- Respectful treatment and recognition is one of the six less costly and perhaps more effective 'management levers' to be exercised by management to attract, motivate and retain workers since employees consider such factors to be important.
- Factors of recognition for performing well, chances of promotion, professional growth, compensation and incentive schemes, are perceived as motivating factors by many employees who will in turn feel satisfied.
- Recognizing contributions will result in a world class working environment that motivates and propels people to work better and stay on.
- Lack of recognition is one of the serious de-motivators and results most organization to introduce better reward and recognition schemes.
- Strategies like building a high degree of recognition value into every reward offered, reducing entitlements and linking as many rewards as possible to performance, troubleshooting the reward system to make sure that what it is rewarding is what you really want to happen, rewarding promptly, giving employees a choice of rewards, increasing the longevity of rewards will motivate the employees.
- Reward process needs to be unbreakable and to be a motivation towards achieving the total organizational performance. Indeed, the employees with high performance level expect that their outstanding offerings will be recognized and respected by the top-level managers.
- On the other hand, recognition and reward deficiency is a crucial reason for employee's turnover and a poor reward system can be a de-motivator for the staff instead of stimulating them.
- Rewarding employees is vital to help to achieve their aims. In addition, there are a few firms which appreciably are able to inspire the working joy in performing jobs and responsibilities while there are not enough promising rewards.
- Rewarding provides a tool for encouraging the efforts, quality and convincing employees that the firm appreciates their attempts.

11. FRAMEWORK on influencing Variables of REWARD SYSTEM



12. IMPACTS

The impact on the rewarding systems of an organization can be of either positive or negative as well. Individuals who feel under rewarded will have stronger, negative feelings than the ones who are over rewarded. If inequity is met in the employee-employer relationship individuals are likely to change their inputs to correspond to the outcomes that is lower the work effort to equal the outcomes, change the referent to which they are comparing the felt inequity or distort perceptions of self or others. Rewards now include the opportunity for career enhancement as well as the impact that the working environment may have on the individual. Reward practice will enhance motivation, commitment, increase job engagement and develop discretionary behavior. Organizations are required to propose both intrinsic and extrinsic rewards to increase organizational outcomes.

12.1 Pros

- Recruitment and retention of qualified and competent personnel
- Motivation of employees and their work teams
- Raises willingness to take on challenging tasks
- Save money
- Efficient administration
- Attainment of organizational goals and objectives through work commitment

12.2 Cons

- Issues related to performance appraisal
- Unrewarded tasks may be neglected
- De-motivation of unrewarded or low rewarded employees
- Competition between employees instead of corporation
- Reduced Cooperation between Employees
- Bias and lack of transparency

13. Discussion of Findings

Employees will work harder that they value monetary rewards and if they believe that those awards will result from their increased efforts. The findings of the study will throw more light into the effectiveness of the use of incentives in motivating employees. It will also unravel the problems, frustrations, and anxieties that employees meet in their work environment, especially where incentives are emphasized. It will help the organizations to likely use rewards to put in place in motivating employees. In addition, it will assist the management of an organization to engage in staff welfare development in order to better the output or productivity of employees. The study will also serve as a useful tool for those in the management science discipline who would like to carry out further research in this area. Rewards in the form of incentives satisfy the basic needs of employees and this makes them more loyal to the organization. It is hoped that the findings will be valuable to the academicians, who may find useful research gaps that may stimulate interest in further research in future.

13.1 Recommendations

The findings of the study were of help to the government and other regulators in the formulation remunerated. The labor organizations should strive to fight for the workers well being by advocating for increased rewards to the employees in the private sector in order to motivate them and increase their performance. The findings are supported by the equity theory posits that people evaluate fairness by comparing the inputs they contribute (i.e. skills and efforts) and the outcomes they receive (i.e. pay). The findings of the study suggest that management need to properly promote employee performance by the use of rewards. The reward used need to be competitive and the company need embrace trends in the compensation trends in the market. Both intrinsic and extrinsic rewards are equally important in

ensuring that employees do their best. The company should allocate sufficient time and money for employee training in order for the employees to receive adequate training and information to do their job well. The managers need to keep both intrinsic and extrinsic rewards factors in mind as they come up with ways to further motivate their employees into providing excellent service. The company management should focus on lower level needs before moving on to higher level ones if the employees were to become more motivated. Thus both hygiene and motivation factors are important in promoting employee performance.

13.2 Suggestions for Further Research

Due to limited time and scope, this study is restricted to only on conceptualization of framework on rewards. It is important for further studies to be carried out in order to do justice to all the factors that influence workers performance. It is very pertinent at this juncture to suggest that more research should be conducted on the relationship and influence of rewards on workers performance using many private and public organizations. Besides, similar future study is suggested studies that may focus on the influence of rewards on employee performance in other sectors and other contexts to be carried out for any particular services in the industry. The influence of demographic traits on performance may also be assessed. This will help to create a better understanding and generalization about the reward strategy framework in industry. Extensions of this study might also examine the effect of other reward mechanisms such as formal versus informal rewards and corrective rewards.

14. Conclusion

If organizations want to include total rewards as part of their management strategies, it is imperative that they understand the complex nature in the performance-reward-satisfaction-motivation relationship and how best to use reward systems

to meet the needs and goals of both the organization and employees. Certain rewards are better predictors of work performances than others, implying that organizations should steer away from one-size-fits-all reward strategies.

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