



Relationship between Organizational Rewards System and Employee Job Performance: A Case Study

Arachchi YME* and Wattegama EJ²

Department of Industrial Management, Faculty of Applied Sciences, Wayamba University of Sri Lanka

*yashed90@gmail.com

ABSTRACT

Rewarding employees is one of the strategies that can be used to fulfill the need of maintaining the fairness at the distribution of benefits between the firm and its employees. Although many researches have been carried out to investigate the impacts of reward systems on enhancing the employee productivity in the global context, there is gap in relevant literature in Sri Lankan context. The objective of the present study is to analyze the impacts of a firm's reward system on increasing the job performance of production floor employees. A stationary manufacturing plant in Sri Lanka is selected purposely as it is not a popular study setting among the manufacturing related studies compared to the textile and apparel manufacturing sector. The cross sectional data have been considered for testing the study hypotheses. A standard questionnaire was distributed among the randomly selected 85 no. of production floor employees. The results reveal that although the relationships of different categories under the two different reward types called extrinsic and intrinsic with respect to the employee job performance are statistically significant, the intrinsic reward type is more significant than the extrinsic reward type. Finally, the study recommends some managerial implications and future research directions to lessen the existing literature gap in Sri Lankan context.

KEYWORDS: Extrinsic Rewards, Intrinsic Rewards, Job Performance, Production Floor Employees

1 INTRODUCTION

Human resource is considered as the most valuable asset for a firm. Hence, the findings of employee performance and its related factors are important for a firm at the establishment of strategies to sustain their core competencies and competitive advantages. An effective reward system has been found as a helpful tool for a firm to attract qualified and skilled people to become as the job applicant and retain the existing workforce to achieve its goals.

The level of output that is expected to obtain from a production floor employee is very much important for measuring the successful performance of the production function of a firm. If there is a gap between the expected and the actual job performance of an employee, then his/her employer's responsibility is to search for the reasons. Regardless of knowledge and skills, the dissatisfaction towards his/her job might be one of the main reasons for such performance gap.

After reviewing the relevant literature under the human resource management study domain, it is revealed that analyzing the reward system of a manufacturing firm would be a suitable research direction in Sri Lankan context as almost all manufacturing firms in Sri Lanka have private ownerships. Hence, the production floor employees of those firms have many grievances with respect to the 'fairness' of their reward systems. Accordingly, the objective of present study has been established as to analyze the reward system of a manufacturer and the relationship between two types of rewards; extrinsic and intrinsic in achieving the desired job performance of the production floor employees.

2 LITERATURE REVIEW

In an employee motivational study, Colin (1995) has stated that "Reward is the benefits that arise from performing a task, rendering a service or discharging a responsibility". The rewards are generally categorized under two broad types called intrinsic rewards and extrinsic rewards. Reio

and Callahon (2004) have revealed that both extrinsic and intrinsic rewards inspire the employees to reach towards the higher levels of performance and productivity. Ajila and Abiola (2004) have defined intrinsic rewards as ‘psychological rewards’ and such are the opportunity to use one’s ability, a sense of challenges and achievement, receiving appreciation and positive recognition, and being treated in a caring and attentive manner. Ajils (1997) has defined the extrinsic rewards as “are those external to the task of the job, usually financial or tangible such as pay, work condition, performance incentives/bonus, fringe benefits, security, promotion, contract of service, and the work environment”. Further to the said author, “the organizations often use financial rewards to prevent their employees to be dissatisfied although it may not be the best motivator for the long term”.

According to Ibrar and Khan (2015), “performance at job is the result of ability and motivation. Commitment of all employees is based on rewards and recognition”. Moreover, Carraher, Gibson and Buckley (2006) have stated that “there should be an effective reward system to keep the well performing individuals with the organization and rewards should be linked to their productivity”. Accordingly, the firms have the responsibility to reward employees timely and frequently.

Table 1 shows some examples of different categories under both reward types which have been tested by previous researchers.

Table 1: Details of Reward Types

Type	Source
<u>Extrinsic rewards</u>	
Pay rise	} Aktar, Sachu & Ali (2012); Kahya (2007)
Performance Incentives	
Working Conditions	
<u>Intrinsic rewards</u>	
Recognition	} Aktar et al. (2012); Langfred & Moye (2004)
Career Advancement	
Autonomy	

The present study has selected the same categories under each reward type as shown in Table 1 to explain the relationship between the reward structure and the employee job performance. Fig. 1 shows the conceptual framework of the study.

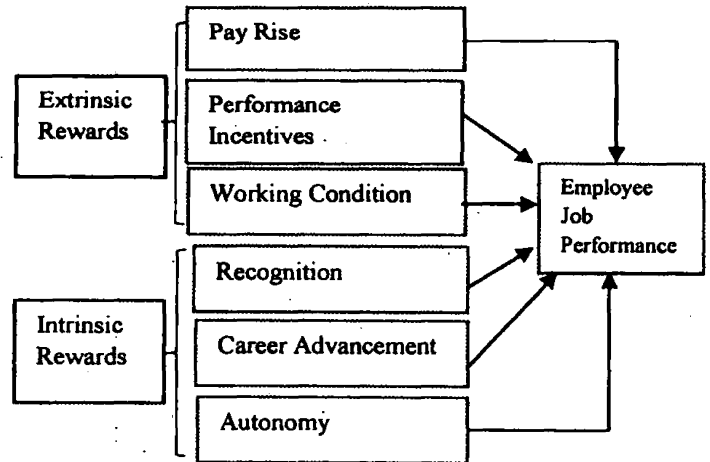


Figure 1: Conceptual Framework

3 METHODOLOGY

The purpose of the present study is to analyze a reward system to see how it can relate to the job performance of the production floor employees. A stationary manufacturing plant was selected purposely as many manufacturing related studies in Sri Lankan context have mainly been focused on the issues of textile and garment manufacturers. The cross sectional data have been considered for testing the study hypothesis. The target population of the study was the production floor employees. The sample size was determined by using the random sampling technique. Accordingly, 85 no. of production floor employees have participated in the survey. The job performance was the dependent variable and the indicators such as employee perception on productivity improvement, job quality, job accomplishment, willingness to exert extra effort, and commitment and goal achievement were found from the literature (For example Yapa, 2002; Dharmasiri & Wickramasinghe, 2005) to measure it. The independent variables were the extrinsic reward types (pay rise, performance incentives, and working condition) and the

intrinsic reward types (recognition, career advancement, and autonomy). The indicators for each variable type were selected from a standard questionnaire and have measured in 5-point Likert scales where 1. Strongly disagree and 5. Strongly agree. (For example Mikander, 2010) Moreover, several open ended questions were designed to obtain the employee suggestions for the improvement of the current reward system of the selected manufacturer of the study. The data were analyzed quantitatively and SPSS 17.0 version was used.

Based on the Fig. 1, six hypotheses were established to test the relationship of each independent variable such as pay rise, performance incentives, working condition, recognition, career advancement, and autonomy and the dependent variable of employee job performance empirically.

4 DATA COLLECTION AND ANALYSIS

4.1 Descriptive Statistics

Table 2: Descriptive Statistics

	Mean	SD
Extrinsic Rewards	3.20	0.64
Pay Rise	3.18	0.71
Performance Incentives	3.14	0.73
Working Conditions	3.46	0.79
Intrinsic Rewards	3.39	0.62
Recognition	3.33	0.67
Career Advancement	3.35	0.66
Autonomy	3.48	0.66

According to Table 2, the majority of the employees have stated that the quantity and quality of pay rise and the performance incentives are not adequate for them. Further, their overall perception about intrinsic reward type is higher than the extrinsic reward type. Table 3 shows how employees have expressed their opinions with respect to the satisfaction and fairness levels on quantity and quality of the rewards. According to Table 3, the employees have highly rated the reward category called 'working conditions' with respect to the satisfaction and fairness on the quantity and quality of that type. Moreover,

the reward of 'autonomy' power that they can receive through rewarding has been ranked as second under both levels. However, the least satisfaction and fairness on the quantity and quality aspects have been shown for the 'pay rise'.

Table 3: Satisfaction & Fairness on Quantity and Quality of the Rewards

Variable	Satisfaction Mean	Fairness Mean
Pay Rise	2.56	2.77
Performance Incentives	2.83	3.01
Working Conditions	3.46	3.46
Recognition	3.24	3.26
Career Advancement	3.14	3.23
Autonomy	3.31	3.45

4.2 Correlation Analysis

Table 4: Results of Correlation Analysis

Factor	Pearson correlation (r - value)	Significance (p - value)
Dependent Variable: Job Performance		
Extrinsic rewards	0.849	0.000
Pay rise	0.805	0.000
Performance Incentives	0.682	0.000
Working Conditions	0.740	0.000
Intrinsic Rewards	0.895	0.000
Recognition	0.869	0.000
Career Advancement	0.839	0.000
Autonomy	0.802	0.000

Significance Level - 5%

Based on the corresponding p value of each independent variable as shown in Table 4, there is a significant relationship between the overall reward type/individual reward category and the employee job performance. Moreover, Pearson's correlation coefficient

value of the intrinsic reward type is higher than the extrinsic reward type.

4.3 Multiple Regression Analysis

The regression analysis was performed according to the stepwise method.

Table 5: Summary of Regression Analysis

R ² Value	0.899	
Model		
	Coefficient	P value
Constant	0.081	.543
Intrinsic Rewards:		
Recognition	0.271	.000
Career advancement	0.391	.000
Autonomy		
Extrinsic Rewards:		
Pay rise	0.218	.000
Performance incentives	0.137	.005
Working conditions		

Significance Level - 5%

According to the Table 5, the P values of recognition, career advancement, pay rise, and performance incentives are less than 0.05. Moreover, the R² value indicates that 89.9 percent of the variation in employee performance can be predicted by the reward categories of recognition, career advancement, pay rise, and performance incentives.

5 RESULTS AND DISCUSSION

When the mean values are compared, under descriptive statistics, it is found that the Mean_{Intrinsic} > Mean_{Extrinsic}. Then, the results of the correlation analysis reveal that there is a significant relationship between the organizational reward system and employee job performance. Accordingly, the study hypotheses were proved. Based on the correlation coefficient values, the intrinsic reward type is highly correlated with the employee job performance. Moreover, the results of regression analysis have shown that rewards of recognition, career advancement, pay rise, and performance incentives as the most significant reward

categories of the organizational reward system.

Further analysis of the answers for the open-ended questions in the questionnaire has revealed that the employees were in the opinion of 'autonomy' and 'working conditions' are the most satisfied and influential reward categories in the current reward system of the firm. The 'pay rise', 'performance incentives', 'recognition', and 'career advancement' have been identified as the reward categories that should be further developed by the firm. As the suggestions for improvement, many employees have proposed that the firm should implement a 'quick rewarding system' in the form of gifts or small presents apart from the formal reward system. Moreover, 'personal performance based bonus scheme' is another category that should be included in the existing reward system. The 'provision for timely feed backs' for the work achievements such as displaying the names of achievers on the notice boards (recognition), and giving training opportunities (career advancement) have also been suggested to improve the existing reward system of the firm.

6 CONCLUSIONS

According to the results of the study, it can be concluded that there is a significant relationship between the organizational reward system and the employee job performance. Moreover the intrinsic reward categories such as 'recognition' and 'career advancement' are significant and highly correlate with the employee job performance. The 'pay rise' has also been considered as important because the financial rewards such as individual pay can be used to differentiate the skill level of each individual.

As the managerial implications, it is recommended that introducing an 'individual performance based bonus scheme' would be fruitful as the 'pay rise' has been identified as a motivating factor to improve the job performance of both

permanent and casual/seasonal employees. Moreover, developing and implementation of a 'strategic reward framework' within the firm would be another recommendation as it helps creating integration of the different performance levels of the jobholders and recognizing the individual contribution at the accumulation of benefits. This also helps maintaining the fairness at the distribution of the benefits between the firm and its employees.

Finally, it is expected that the findings of the present study would be a contribution for filling the relevant literature gap in Sri Lankan context. As future research directions, the study recommends to repeat similar type of researches in the production plants of different industrial sectors other than the textile and apparel and stationery manufacturing in order to expand the generalizability of the findings and to adopt different methods of analysis to investigate the impacts of individual reward categories under extrinsic and intrinsic types on employee job performance as such type of impact investigation has not been focused by the present study.

REFERENCES

- Ajila, C. and Abiola, A. (2004). Influence of Rewards on Workers Performance in an Organization. *Journal of Social Science*, 8(1), 7-12.
- Ajils, C.O. (1997). *Job Motivation and Attitude to Work as Correlates of Productivity Among Workers in Manufacturing Companies in Lagos State*. Nigeria: Department of Psychology.
- Aktar, S., Sachu, M.K. and Ali, M.E. (2012). The Impact of Rewards on Employee Performance in Commercial Banks of Bangladesh: An Empirical Study. *Journal of Business and Management (IOSR-JBM)*, 6, 09-15.
- Carraher, R., Gibson, A., and Buckley, R. (2006). Compensation in the Baltic and the USA. *Baltic Journal of Management*, 1, 7-23.
- Colins, P. (1995). *Motivating Your Organization*. McGraw-Hill International, p. 187
- Dharmasiri, A. and Wickramasinghe, S. (2005). The effectiveness of monetary rewards in motivating police officer. *Sri Lankan Journal of Management*, 10(3-4), 21-36.
- Ibrar, M. and Khan, O. (2015). The impact of reward on employee performance (A case study of Malakand Private School). *International Letters of Social and Humanistic Sciences*, 52, 95-103.
- Kahya, E. (2007). The effects of job characteristics and working conditions on job performance. *International Journal of Industrial Ergonomics*, 37, 515-523.
- Langfred, C.W. and Moye, N.A. (2004). Effects of Task Autonomy on Performance: An Extended Model Considering Motivational, Informational, and Structural Mechanisms. *Journal of Applied Psychology*, 89(6), 934-945.
- Mikander, C. (2010). The Impact of a reward system on employee motivation in Motonet-Spoo, 47-51.
- Reio, G.T. and Callahan, J.L. (2004). Affect, Curiosity, and socialization-related Learning; a path analysis of antecedents to job performance. *Journal of Business and Psychology*, 19, 3-22.
- Yapa, S. (2002). An examination of the relationship among job satisfaction, rewards and organizational commitment. *Journal of the Management Science*, 1(1), 46-66.