

## **Impact of Reward Systems on Organizational Performance (MS-2)**

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**ABSTRACT:** Reward systems are pivotal components in an Organization's. This is a tool to drive employee motivation, commitment, and performance. These systems, encompassing both intrinsic and extrinsic rewards, play a significant role in influencing employee behavior and aligning individual goals with organizational objectives.

Extrinsic rewards like salary hikes, promotions, bonuses, it provides tangible benefits, while intrinsic personal growth. A Well-Structured reward system can enhance organizational performance by improving employee morale, reducing turnover. Contrarily poor designed systems can lead to reduced engagement, competitiveness. Consequently, organizations must carefully design and adapt their reward strategies to elevate overall performance.

**KEYWORDS:** Motivation, Commitment, Bonuses, Organization performance, Employee, Competitiveness.

**INTRODUCTION:** A Reward Systems refer to any mechanism (either formal or informal) that provides incentives or recognition to individuals or groups for their behavior or performance. These systems are designed to motivate and encourage desired behaviors, achievements, or actions. They can be used in various contexts including businesses, education, families and broader communities. The Rewards can be Tangible and intangible. For Tangible Example are: (Money, Gifts) For Intangible Example are: (Praise, Recognition). In dynamic business environment, organizations are perpetually seeking strategies to optimize performance, drive growth, and secure competitive advantages. employees are the key drivers of value and innovation, necessitate mechanisms their motivations, commitment, and enthusiasm towards organization.

Reward systems are more than compensation structures; they symbolize recognition, appreciation.

However, while the benefits of reward systems might seem apparent, it is crucial to understand their tangible impact on organizational performance.

### **NEED AND SCOPE OF THE STUDY:**

In order to retain their top talent, businesses must be aware of the effects of reward systems on employee motivation and productivity. Additionally, it is essential to allocate resources in a prudent manner in order to maximize rewards. furthermore, reward systems must be in line with the company culture in order for employees to feel a part of the organization. Lastly, it is important to determine whether rewards have a

correlation with business outcomes such as profits, customer satisfaction and innovation. This study will examine the psychological mechanisms behind reward systems, including intrinsic rewards job satisfaction and recognition extrinsic rewards, and employee demographics.

### LITERATURE REVIEW:

1. Lawler III (2003), E. E. Lawler III (2003): Reward Practices and Performance Management System Effectiveness. This paper examines the impact of various reward practices on individual and organizational performance.
2. Milkovich (G. T.), Newman (J. M.), and Gerhart (B. 2013): we explore the many aspects of compensation and how different reward systems impact employee performance and organizational results.
3. M. Armstrong, M., and H. Murlis (2007): present "Rewards Management" This book offers a range of case studies demonstrating the effectiveness of reward strategies in optimizing organizational performance.
4. Gupta, N. and Shaw, J.D. (2014): Employee Compensation: The Neglected Area of Human Resource Management Research, 24(1) 1-4. Gupta and Shaw emphasize the importance of employee compensation as a way to improve organizational performance.
5. Aguinis, H., Joo, H., & Gottfredson, R. K. (2013): What monetary rewards can and cannot do: How to show employees the money. Business Horizons, 56(2), 241-249. The authors discuss the limitations and advantages of monetary rewards, suggesting that while they can drive performance.
6. Gerhart, B., and Rynes, S. (2003): A Theory, Evidence, and Strategic Implications. Sage Publications How Compensation Influences Individual Behaviors and Organizational Performance
7. Perry (2009), Engbers (2009), and Jun (2009): Performance-Related Pay, Empirical Research, and Perilous Perseverance, How Performance-Related Pay in the Public Sector Affects Organizational Performance and Suggests Paths for Future Research.
8. Rynes, S. L., Gerhart, B., & Minette, K. A. (2004): About this paper the gap between employee perceptions about the importance of pay and their actual behavior. It offers insights into how organizations can align reward systems with employee motivation.
9. D. Dewettinck (2005) and B. Buyens (2006): The Role of Fairness in Performance Evaluation and Pay Personnel Review "Perceptions of Fairness in Reward Systems Affect Employee Motivation and Organization Performance".

10. Kerr (1995): He talks about how organizations often have reward systems that don't match up with their goals, and how it's important to design them in a way that actually reflects what the organization is trying to achieve.

#### OBJECTIVES:

1. To analyze the correlation between effective reward systems and employee performance within an organization.
2. To evaluate how different types of reward systems influence the organization's overall performance.

#### LIMITATIONS:

One-size-fits-all approaches may not be suitable for all employees. What is rewarding to one may not be to another if the reward systems is not tailored to the individual. Additionally, some reward systems may be focused on short term results, which may lead to a lack of focus on long term objectives and sustainability. Furthermore, reward systems may encourage unethical behavior or short- termism in order to meet the rewarded metric. subjectivity and bias in reward systems may lead to a sense of unfairness, which can discourage employees and foster mistrust. Finally, the design, implementation, management of effective reward systems may be complex and require considerable administrative effort.

#### STATEMENT OF PROBLEM:

In the current business landscape, organizations are constantly looking for ways to motivate their staff and enhance overall performance. The reward system is one of the major tools available to them. some organizations claim that reward systems can have a significant impact on performance, while others suggest that may only have a short-term benefit or even lead to counterproductive behavior. Despite the widespread use of reward schemes, there is a lack of comprehensive knowledge of their direct or indirect effects on performance. And it is essential to evaluate how and to what degree of reward systems affect organizational outcomes, particularly productivity, employee happiness, and retention.

### RESEARCH METHODOLOGY:

This study based on the survey of reward systems on organizational performance in different organizations. This method of survey used by questionnaires.

A questionnaires is a structured tool used to gather information from individuals. It typically consists of a series of questions designed to collect specific data, opinions, or insights on a particular topic. Questionnaires can be administered in various formats, such as paper-based, online, or in-person interviews, and they play a crucial role in research, surveys, assessments, and data collection process. properly designing and formatting a questionnaire ensure accurate and meaningful responses.

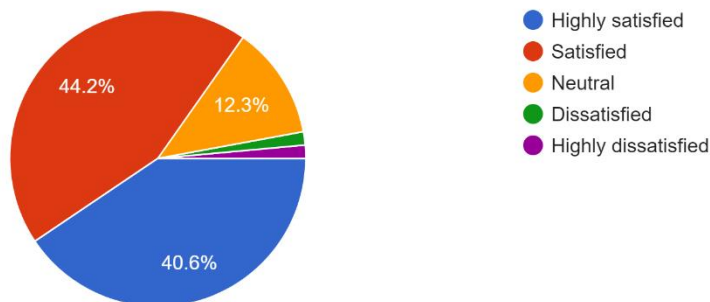
Through those questionnaire study got conclusion about various questions like monetary rewards in my company increases developmental activities among employees? Reward system ever influenced your decision to stay or leave the company ? and much more things.

### ANALYSIS :

1. Out of 138 responses of rate of effectiveness of current reward system is 44.2% satisfied and 40.6% is highly satisfied and 12.3% is neutrally satisfied with the organization.

Rate the effectiveness of your organisation's current reward system.

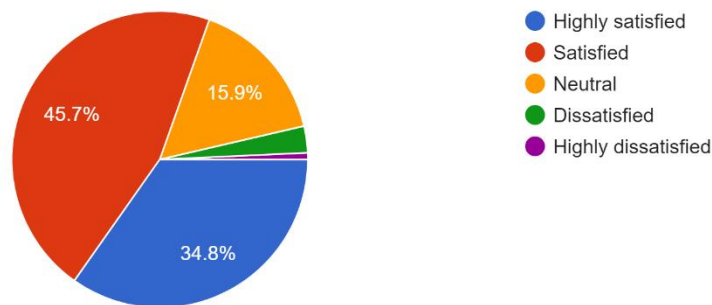
138 responses



2. 45.7% employees satisfied that reward system ever influenced your decision to stay or leave the company. And 15.9% is neutrally satisfied with the decision. 34.8% highly satisfied.

Reward system ever influenced your decision to stay or leave the company.

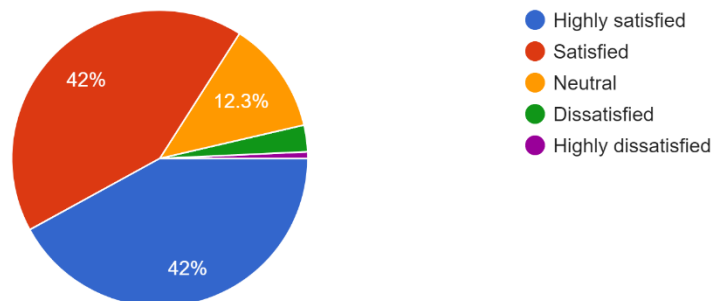
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3. In organization developmental activities among employees in that highly satisfied and satisfied are 42% and neutrally satisfied .

Professional development in my company increases developmental activities among employees.

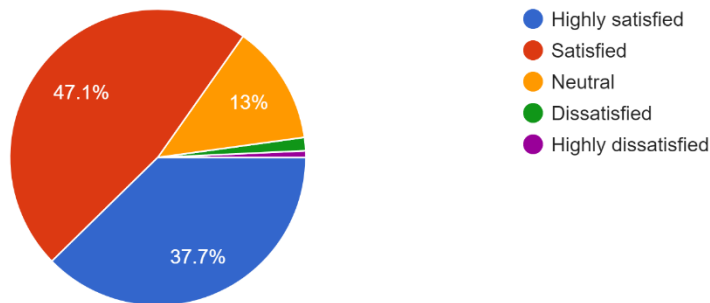
138 responses



4. Employees Recognition in my company increases developmental activities by 37.7% are highly satisfied and 47.1% are satisfied ,neutrally\_satisfied is 13% .

Recognition in my company increases developmental activities among employees.

138 responses

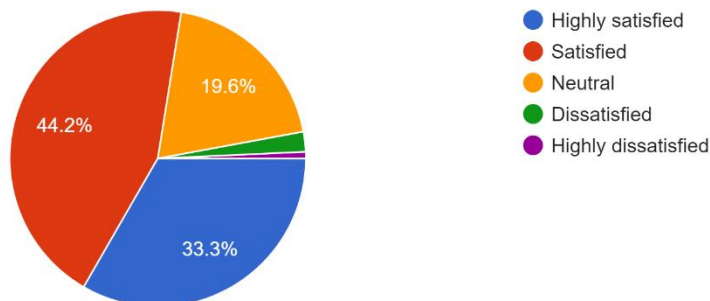


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5. Frequently rewards given out in our organisation employees highly satisfied with 33.3% ,satisfied 44.2% , neutrally satisfied employees are 19.6% .

Frequently rewards given out in our organisation.

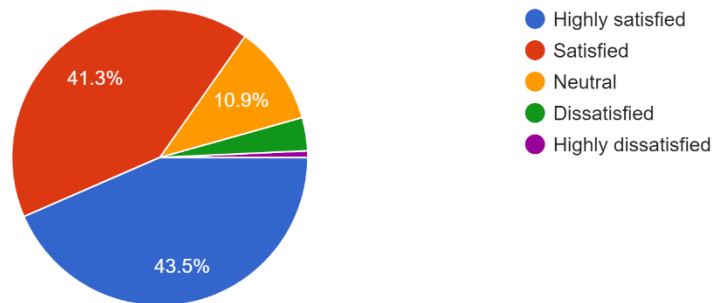
138 responses



6. In organization reward system is fair the employees are 43.5% are highly satisfied and 41.3% are satisfied and neutrally satisfied is 10.9%

I believe that the reward system in our organisation is fair.

138 responses

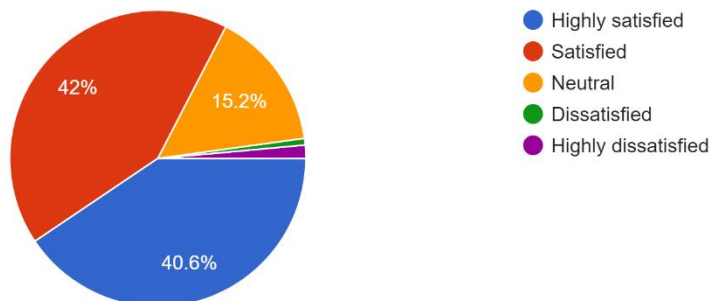


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7. out of 138 responses the highly satisfied employees is 40.6% for current reward system in organisation is improved. Satisfied is 42% and 15.2% is neutrally satisfied.

The current reward system in organization be improved.

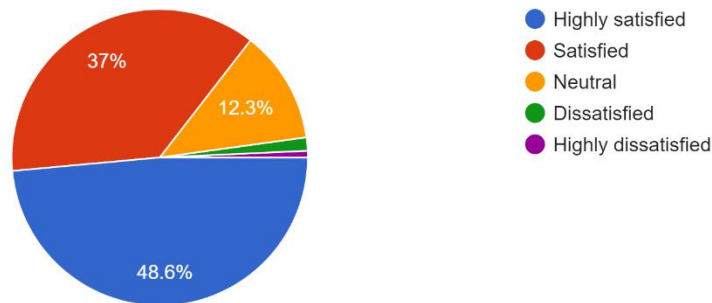
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8. In organisation reward system\_has a significant impact on overall performance the neutrally satisfied is 12.3% and highly satisfied is 48.6%, satisfied is 37% .

The reward system has a significant impact on the overall performance of my organization.

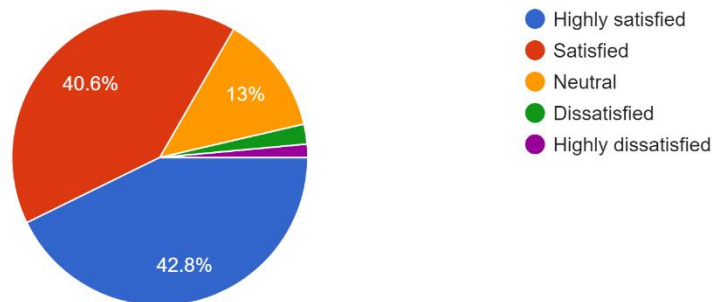
138 responses



9. In organization reward system were improved I believe that my performance would also improve in that highly satisfied is 42.8% and satisfied is 40.6%, neutrally satisfied is 13%

Reward system were improved i believe my performance would also improve.

138 responses



## FINDINGS AND RECOMMENDATIONS:

### FINDINGS:

Employees are more motivated and satisfied when they feel rewarded for their hard work. This leads to higher productivity and better job satisfaction.

Competitive and Fair Reward Systems: Organizations with a fair and competitive reward system attract and retain the best talent.



**Increased Productivity:** Employee productivity is directly related to reward systems. Employees often work harder when they know they will be rewarded for their efforts.

**Teamwork & Collaboration:** A reward system that recognizes team efforts encourages employees to collaborate and work together to reach shared goals.

**Rewarding Specific Behaviors:** By rewarding certain behaviors, an organization can shape its culture and encourage employees to act in a way that leads to desired outcomes, such as increased innovation, improved customer service, etc.

**Unintended Consequence:** Reward systems can have unintended consequences if they are designed in a way that only rewards individual achievements. For instance, if rewards are based on quantitative metrics, it can discourage teamwork.

### RECOMMENDATIONS:

It is essential to ensure that the rewards system is tailored to the organization's goals and objectives. Include both external rewards (salary, bonuses, benefits) and internal rewards (recognition, training, or more difficult job roles). Additionally, the reward system should be perceived as fair, including both in terms of distribution and decision-making. To ensure the reward system remains relevant, it should be regularly reviewed and updated. The criteria for rewards should also be clearly communicated to all employees, reducing confusion and ensuring that everyone is aware of the expectations. Finally, recognition and recognition of team efforts should be encouraged, as this can foster teamwork and collaboration. Finally, when operating in different countries or cultures, it is important to be aware of potential unintended consequences, such as increased competition. Finally, non-monetary rewards should also be included, as they can be equally as motivating.

### CONCLUSION:

Reward systems play an important role in improving organizational performance, both in terms of individual behavior and overall performance. Reward systems are primarily designed to encourage employees to work harder and be more productive.

Competitive reward systems help to attract top talent and reduce turnover.

Align reward systems with organizational goals to ensure that employees are working towards the organization's overall mission.

Have an impact on behavior: Rewards can influence employee behavior, encouraging good behavior and discouraging bad behavior.

Encourage innovation: Reward systems that focus on performance can encourage creativity and innovation.

Improve team collaboration: Reward systems designed for team collaboration can help to bridge the gap between teams.

Cost-effectiveness: Too many high-cost reward systems can put an organization's financial health at risk.

Unintended consequences: Poorly-structured rewards can result in unethical behavior, or a preference for short-term profits over long-term results.

Issues with equity: Unfair distribution can lead to demotivating employees and a decrease in productivity and morale.

Stay relevant: Reward systems need to be kept up-to-date in a fast-paced business environment.

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Lawler, E. E. III (2000). *Rewarding Excellence: Pay Strategies for the New Economy*. Jossey-Bass.

Milkovich, G. T., Newman, J. M., & Gerhart, B. (2013). *Compensation*. McGraw-Hill/Irwin.

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Jensen, M. C., & Murphy, K. J. (1990). Performance pay and top-management incentives. *Journal of Political Economy*, 98(2), 225-264.

Gerhart, B., & Rynes, S. (2003). *Compensation: Theory, evidence, and strategic implications*. Sage Publications.

#### Research Reports & White Papers:

WorldatWork (2010). *The WorldatWork Handbook of Compensation, Benefits & Total Rewards: A Comprehensive Guide for HR Professionals*.

#### Online Articles & Resources:

Harvard Business Review articles often touch on the topic of reward systems and their effects on performance and engagement.

#### Case Studies:

The impact of reward systems can also be examined through specific organizational case studies, where companies made significant changes to their compensation and benefit structures.