RECOGNITION OF STRATEGIC REWARD SYSTEMS AND INCENTIVES INFLUENCING EMPLOYEES

HOSSEIN KHANIFAR¹, MOHAMMAD HOSSEIN RAHMATI², MEHRAN KARAMI FAKHRABADI³*

¹Prof, Faculty of Management, Farabi campus, University of Tehran, Iran,  
²Assistant Prof, Faculty of Management, Farabi campus, University of Tehran, Iran,  
³EMBA Strategic Management, Faculty of Management, Farabi campus, University of Tehran, Iran.

ABSTRACT
Companies for reaching higher goals and development use motivation. Motivation is a complex phenomenon which is influenced by individual, cultural, ethnic and historical factors. Some methods are suggested to increase employee performance. Rewards and incentives are probably among the most popular ones. So organizations use reward systems and strategies to motivate their employees and to increase their performance. The aim of this study is to investigate how rewards, reward systems and organizational incentives influence employees. Another goal of this study is to research the relationship between the effective reward management system applications and employee performance of Mobarakeh steel company in Iran and introduce a local reward model. Our model introduces a new perspective about the conditions under which rewards are an effective incentive design. Our conclusions is that motivating, recognizing and rewarding is a severely complicated issue, but of great importance. There are various factors that influence each other and they depend on a numerous variables such as environment, gender, age, culture, society, social factors, individual goals, psychological and physiological needs among others. Furthermore, quality of relationship with managers is a reward that improves the commitment to the organization. The results of their study bring out a positive relationship between the perceived features of the reward system and extrinsic motivation.

KEYWORDS: Motivation, Rewards, Reward Systems, Incentives, Employee performance

1. INTRODUCTION
Employees are vital for the organizations that seek for success. Most business and organizations strive to improve quality and performance of their products, services, internal or external operations. The reasons for this can be various, depending on the goals the business or the organization have set. Important goals could concern an effort to assure a firm and stable ground in the market or to improve cost effectiveness. The competition between organizations and business can be a difficult task, and make it difficult to reach higher goals and development (Bolman 1997). So many ways are suggested to increase employee performance. Rewards and incentives are probably among the most popular. It is clear that rewards and incentives influence to employee motivation and commitment to the organization (Parish et al., 2008). Kerr (2005) identified several examples of reward systems promoting dysfunctional behavior in a range of settings. Examples include the rewarding of quarterly earnings while the company hopes for long-term growth and the rewarding of individual performance when promoting team work. Moreover, individuals are influenced by different rewards and incentives (Clark & Wilson, 2001). Thus the individual preference for certain rewards and incentives do affect the influential effect of the reward or incentive. Rewards and incentives are all used for the same reason but they show minor differences. However, it can be claimed that rewards and incentives might be used to motivate the employees, improve their commitment (Armstrong, 1993).

McGregor’s theory adds a central idea, that managers’ assumptions about their employees can affect their motivation. This theory proposes two alternative and extreme views to see the human being: Theory X and

* Corresponding Author: mehrankarami@ut.ac.ir
Theory Y. According to Theory X the employee is viewed as mainly negative, lazy, resist change and unable to motivate. This produces a controlled environment with strict rules, threats and punishments. Employees in an organization like this tends to perform less effective, gives low productivity, produces aggressions and conflicts (Bolman et al., 1997). Theory Y on the other hand strives to maximize the employee’s individual goals and efforts by giving workers greater job involvement and autonomy. This means that employees are given the possibility to grow and achieve their own goals within the organization (Mattheson 2009). Employees are viewed as positive and open to development. The management’s goal is to make the employee happy and satisfied with their work and performance (Bolmanet al., 1997).

Barber (2001) mentioned that reward management systems have major impact on capability of organization to catch, retain and motivate high potential employees and as a result getting the high levels of performance.

Various types of rewards and incentives influence employees. These can be feedback, goal setting (Duff et al., 1994), and individual interest, job motivation, fit with the vision, information and participation. It is obvious that employees who are motivated or committed either to the organization or the change show better performance on the people of organization in each level and in each situation.

A good reward system causes gain sharing. It is a formal and win-win program that allows employees to participate financially in the productivity, both the employer and the employee benefit from increased productivity, which lead to motivation enhancing (Durbin, 2004).

According to David McClelland, the success will come if employees are dedicated to the company, committed to the work ethic and unflagging in energy and devotion. However, the increasing popularity of switching jobs as a method of rapid advancement and the rapidity of change in organizations somewhat contradicts this type of thinking (Stuart, 2007).

Thus the aim of this study is to investigate how rewards, reward systems and organizational incentives influence employees. The derivative objectives from this main goal (i) Identify the different type of rewards and relate them to reward systems and organizational incentives influencing Employees, (ii) describe the situation and level for the employees.

(iii) Break down into parts and study closely and discuss the identified rewards, reward systems and organizational incentives.

2. LITERATURE REVIEW

Traditional perspectives on team rewards, motivation, and performance provide different and sometimes contradicting predictions about how team processes may develop in a situation with interdependent tasks and rewards. Expectancy theory predicts some increased performance only if employees can see the link between attempts, performance, and outcomes. This link is usually difficult to identify (DeMatteo et al., 1998).

Concepts such as rewards, reward systems and incentives show a big similarity and in most of the literature, one of these concepts has been used to cover the other two. Thus difference between the concepts has been understood and theories have been handled through these definitions.

Reward systems, reward strategy, incentive plan, incentive structure etcetera are all terms used in the literature describing the systems or plans organizations utilize in order to influence the manner of its employees (Rubenfeld and David, 2006).

Motivation

Motivation is a complex phenomenon which is influenced by individual, cultural, ethnic and historical factors. According to De Cenzo et al., (1996), people who are motivated use a greater effort to perform a job than those who are not motivated. Motivation can be defined as “a series of energizing forces that originate both with and beyond an individual’s self”. These forces determine the person’s behavior and therefore, influence his/her productivity (Jackson, 2005). In other words this means that all thinkable factors of physical or psychological aspects that we interact with, leads to a reaction within our self or of the entire organization.

Another definition for Motivation is “the willingness to do something, conditioned by the action’s ability to satisfy some need”. Although in a basic sense this definition is correct, it needs to be modified for organizational reasons, that is, the effort that employees make can be misguided. Therefore, it must be focused toward some organizational goals and at the same time must satisfy both organizational and individual needs (De Cenzo et al., 1996).

In order to be motivated, a person needs to have certain basic needs fulfilled. If these needs are lacking, a self-steam of persons and self-actualization cannot develop. This could result in lack of interest to progress and
develop, both professionally and personally. There are several theories of human needs which are the foundation of motivation (Latham and Ernst et al., 2008). A survey result conducted by Kovach in 1946 indicates ten motivational factors that employees were asked to rank in term of personal preference. The following resulted showed as follow:

1) Full appreciation of work done;
2) Feeling of being in on things;
3) Sympathetic help with personal problems;
4) Job security;
5) Good wages;
6) Interesting work;
7) Promotion and growth in the organization;
8) Personal Loyalty to employees;
9) Good working conditions;
10) Tactful discipline

Vroom proposes that motivation is a function of value of effort-performance and performance-rewarded relationships. Expectancy theory emphasizes the role of individual perceptions and feelings (expectations of particular results) in determining motivation and behavior. The best way to view the expectancy theory is with the acronym VIE, which stands for: Valence, Instrumentality, and Expectancy, where (Bounds, 1995):

**Valence** is the value or anticipated satisfaction that an individual attaches to an outcome.

**Instrumentality** is the possibility that a doing well performance will yield the valued outcome.

**Expectancy** is the possibility that a certain level of effort will result in successful behavioral performance.

**Rewards**

Effects of rewards to employee motivation are significant (Danish and Usman, 2010), which then influences to commitment and change process (Parish et al., 2008). Rewards can be defined as financial and non-financial benefits which are given in accordance to an individual or team achievement (Armstrong, 1993). Promotion, pride, job security, good relations with colleagues and superiors and monetary rewards – salary increases, bonuses and benefits are the rewards that has been studied and positive relations with the employee motivation has been found (Danish & Usman, 2010). Similarly Kanungo & Hartwick (1987) observes the motivational effectiveness of rewards and finds that promotion, pay, personal challenge, recognition, authority and job security are the most effective six rewards out of forty eight of them. Mahaney & Lederer (2006) make a more direct conclusion and claims that rewards influence to project success in terms of client satisfaction, perceived quality and implementation process positively. In literature, rewards are classified in various ways like individual rewards and systems (team) rewards (Kerrin & Oliver, 2002), intrinsic rewards and extrinsic rewards (Mahaney and Lederer, 2006) and, direct economic rewards, indirect economic rewards and psychosocial rewards. Furthermore, Kerrin & Oliver (2002) showed in a study how reward systems can be of contrary nature. The study concerned how the use of team based and individual based rewards affected the continuous improvement work in a manufacturing context. The investigated company had made an organizational change in implementing quality improvement teams and rewarding them for improvements. However, they did not disregard of the old system, a suggestion scheme rewarding individuals for improvement ideas, which had been in place for many years in the company. The implication of having both reward systems in use was, among others, that employees withheld ideas when working in the team and instead provided their ideas through the suggestion scheme. In summary, the two systems used in the case company contradicted each other (Kerrin & Oliver, 2002). Thus, it becomes important to understand the whole organizational context when designing and implementing reward systems. Yang (2008) has investigated the individual performance and results of his study showed that we cannot verify individual performance. Even so, he also claimed that if employees’ performance is observable than organizations can use direct bonuses or relational contracts to motivate them based on their performance.

<table>
<thead>
<tr>
<th>Reward Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Conditions</td>
<td>Working conditions associated with the job</td>
</tr>
</tbody>
</table>
Finally, Mahaney & Lederer (2006) classify the rewards as intrinsic and extrinsic ones. Intrinsic rewards are defined as the ones exist in job itself while extrinsic rewards are external. Thus achievement, variety, challenge, autonomy, recognition and personal satisfaction are the examples of intrinsic rewards whereas hand pay, benefits, job security, promotions, private office space and bonuses are examples of extrinsic rewards (Mahaney & Lederer, 2006). Kanungo & Hartwick (1987) tries to separate forty-eight rewards in practice to categories as intrinsic and extrinsic ones by their relation to task (if the reward is derived from task or not) and the source (if the reward is self-administered or comes from others. However, a clear distinction in rewards could not be made in terms of extrinsic and intrinsic though rewards were classified in relation to task and the source.

Extrinsic and intrinsic rewards influence in different ways to the components of project success; client satisfaction, perceived quality and implementation process. While intrinsic rewards affect positively to client satisfaction and perceived quality, extrinsic rewards improve the implementation process. This result is explained as employees who are attracted by the extrinsic rewards focus on the tangible outcomes such as the completion time and budget and the ones who are attracted by the intrinsic rewards focus on intangible outcomes such as satisfaction and quality (Mahaney & Lederer, 2006).

<table>
<thead>
<tr>
<th>Self-Actualization</th>
<th>Opportunity for growth and development, feeling of self-fulfillment and feeling of worthwhile accomplishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security</td>
<td>Security in job</td>
</tr>
<tr>
<td>Compensation</td>
<td>Direct pay and fringe benefits</td>
</tr>
<tr>
<td>Autonomy</td>
<td>Opportunity for independent decision and action, authority in position and opportunity to participate in goal setting</td>
</tr>
<tr>
<td>Social</td>
<td>Opportunity to help people and opportunity for friendship</td>
</tr>
<tr>
<td>Esteem</td>
<td>Feeling of self-esteem, prestige inside and outside company</td>
</tr>
<tr>
<td>Direct Economic Benefits</td>
<td>Overtime pay, salary/wages, profit sharing plan, incentive plans and cost of living adjustment</td>
</tr>
<tr>
<td>Indirect Economic Benefits</td>
<td>Retirement benefits, stock purchase plan, insurance benefits for life, health and disability and, sick or absence pay benefits</td>
</tr>
</tbody>
</table>

Figure 1. Structures of Rewards (Robbins et al., 1996)
Incentives

Similar to reward systems, what kind of incentives the organization offers to its employees will influence the manner of individuals within the organization. An external incentive is defined by Locke (1998), “...as an event or object external to the individual that can incite action”. Therefore, offering the right incentives to the organization’s employees will benefit the organization. In a paper by Kadefors & Badenfelt (2009), the authors define three roles for incentives in organizations. The first role being, incentives as sources for extrinsic motivation, here the focus is on the direct effect incentives have on individuals. The symbolic role of incentives is also recognized, meaning that intrinsic motivation, trust and collaboration may be enhanced or decreased based on how the underlying incentive is perceived. Lastly, the third role relates incentives to the influence on organizational processes and is called; incentives as process generators (Kadefors & Badenfelt, 2009).

A problem related to incentive plans is to assess the individual performance upon which the level of payout is determined in the incentive plan. Two types of measuring and assessing performance are mentioned in the literature, objective performance measurement, also known as quantity, and subjective performance measurement, also known as qualitative. The first type considers the fulfillment and achievement of predetermined indicators and bases the level of payout upon them. Subjective performance measurements on the other hand, determine performance through superiors’ assessment of the estimated contribution by the employee to the firm. Subjective performance assessment is often used when determining future promotions, future compensation and continued employment (Gibbons, 2008). Such relational incentives are subjective and they are agreements enforced by the included parties’ concern for their reputation. In a multitask setting it is recommended to use multiple incentive packages and the use of both formal and relational incentives reduces the distortion of an employee’s incentives.

3. METHODOLOGY

The research was designed as a case study within one district in Mobarakeh steel company. The main data source in was approximately 10 semi-structured interviews conducted with managers and employees at the Mobarakeh steel company. Questions aimed to identify rewards related to the organizational context of the managers and employees. Various alternatives have been considered to gather the information for the findings related to the research questions. However a qualitative approach with semi structured interviews in a case study has been found to be most efficient way to acquire the required data.

4. RESULTS

A way of defining rewards is using the total rewards concept, which is considering what the employee actually values in the relationship with the employer. In total rewards organizational rewards are divided into four different reward categories, being (1) Compensation, (2) Benefits, (3) Development and (4) Work Environment (Kaplan, 2005). The first includes salary, bonus programs and equity programs. Benefits encompass health and welfare as well as other benefits programs such as child care or memberships in fitness centers. The third category, development relates to programs and measures related to learning, skill development and personal growth. Lastly, work environment includes both tangible and intangible rewards promoting a positive working environment. Examples include flexible working times, recognition and job design. Table 3.3.2 below is adopted from Kaplan (2005) and illustrates examples of rewards under each category included in the total rewards concept.

Here, rewards included in the two first categories are of transactional nature, which means they are of monetary nature and involve specific programs. In the development and working environment categories on the other hand, rewards are relational. Hence they are related to emotional aspects of an employment relationship (Kaplan, 2005). Moreover, Kaplan (2007) stress the importance to consider relational rewards to employees.
since these are not easily replicated by competitors and relational rewards strengthen individual commitment. Additionally, transactional rewards must be set so that organizations are able to attract and retain talented employees.

<table>
<thead>
<tr>
<th>Table 2. Total rewards categories and examples of rewards, adopted from Kaplan (2005)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compensation</strong></td>
</tr>
<tr>
<td>Base Salary</td>
</tr>
<tr>
<td>Annual Incentives</td>
</tr>
<tr>
<td>Long-Term Cash Incentives</td>
</tr>
<tr>
<td>Equity</td>
</tr>
<tr>
<td>Spot Awards</td>
</tr>
<tr>
<td>Project Incentives</td>
</tr>
<tr>
<td>Employee Referral Program</td>
</tr>
</tbody>
</table>

**The Pathfinder**

“The Pathfinder” is a tool that creates the basis for measurement in Skanska Sweden and includes four major parts that are employees, way of working, client and finance. In order to reach the main goal, profitability, it should be successful in the finance part and that is achieved through success in other parts of the pathfinder which are good leadership, employee commitment, quality and affectivity, and then client satisfaction, see Figure 3.

![Figure 3. The Pathfinder](image)

Each part of the Pathfinder is measured regularly. Hence good leadership and employee commitment are measured with employee satisfaction survey, value creating organization, attendance and accident frequency. Then quality and affectivity are measured by purchase order agreements and experienced quality. Next step is the client satisfaction and it is measured every six months through client satisfaction surveys. Profitability is the final step of the way which is determined through a couple of financial measures. Some tools for simplify implementation of reward system list below.

- **Regional Manager**
  The regional manager is the highest manager of the decentralized region organization and he reports to the vice president. Compared to the responsibilities of the district manager the region manager’s responsibilities are of a more strategic orientation and his perspective stretches over a longer time-frame.

- **Role defining**
  Defining a role and creating job descriptions are clearly related to job restrictions and giving instructions which are two incentives identified in the literature review. Hence briefly presenting the responsibilities of the interviewed managers becomes interesting for this study.

- **District Manager**
The district manager is responsible for the operations within the district and reports to the regional manager. Job assignments for the district manager include customer care, marketing analysis, submitting project tenders, assigning projects to subordinates and managing the district according to the organization’s management system. Moreover, personnel recruitment, personnel planning and setting of wages, are responsibilities assigned to the district manager.

- **Business Plans**
  A business plan includes various chapters and describes the strategies, objectives and measures but it does not align responsibilities. Chapters of the business plan show similarity to the parts of the Pathfinder which are employees, customers, finance and way of working. Moreover safety as a part of employee and green thinking as a part of quality and affectivity are important chapters in the business plans.

- **Balanced Scorecard**
  The organization applies a balanced scorecard approach in order to guide and steer the operations in the regions and the districts in the right way. The purpose with the measurement system is to see in what direction the operation is going. It is also a way for the organization to compare results and exchange experiences within the organization since equal performance measurements are utilized in the whole organization. Four different perspectives are measured in the balanced scorecard, finance, customer, co-workers and operation mode. Within the four perspectives a number of indicators are measured. The frequency of the measurements varies from once every year to four times per year, which is the case for the financial results.

- **Co-worker Survey**
  The aim with the co-worker survey is to map the employees’ work situation. Both white collar and blue collar employees are included in this yearly anonymous survey. Questions in the survey are for instance related to motivation, working environment, development and perceptions of their manager. Some of the questions in the survey are used as indicators in the balanced scorecard.

- **Customer Survey**
  The customer survey is a tool aimed to obtain feedback from customers about how they perceive the work performed by the organization. Skanska stress this is important since it will lead to improvements. Projects which have delivered above 40 percent of its total financial value are included in the survey as well as finished projects since the last survey. Some results from this survey are also included in the balanced scorecard.

- **Performance Review**
  In the performance review, the nearest manager with staff liability and the employee together establish tangible goals for the development of the employee. Performance reviews are held once every year, and a review of previous year’s performance and development is also included. Moreover, it is also the basis for the yearly wage discussions. For the production managers, district managers are responsible for conducting the performance reviews. Past and present performance is reviewed and new goals are established in the development plan by the district and the production manager. The starting point in the development plan is an assessment of the production managers’ competencies made by the district manager as well as the employee’s goals and ambitions.

Drawing on the literature review above regarding incentives and reward systems they are somewhat treated similarly in previous literature. Both reward systems and incentives induce actions upon individuals. Furthermore, both concepts may lead to a reward in some form, either extrinsic, the most obvious being monetary compensation, or intrinsic, for instance increased responsibility or the feeling of freedom. Drawing from the literature review above incentives could be more widely defined than a reward system. In this section incentives and reward systems affecting the potential attainment or the level of possible rewards is identified and related to the reward category and perceived production manager reward.

<table>
<thead>
<tr>
<th>Reward Category</th>
<th>Identified Rewards</th>
<th>Identified Systems and Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rewards tied to job position</td>
<td>Interesting and fun work task, Variation in tasks; Be in charge</td>
<td>Project based organization</td>
</tr>
</tbody>
</table>
Rewards Tied to personal Values | See results, Reach goals, Fulfil people expectation, Increased responsibility, Get the project you want | Performance measurement System, Project plan, Performance review, Managers, Job description, Social Relationships |
---|---|---|
Rewards Tied to Project Environment | Freedom, Meeting people, Possibility to affect work task, Reasonable workload, Variation of projects, Learn new things | Project based organization, Managers, Project plan |
Rewards Tied to the company | Job security, Interesting projects, Work abroad, Fixed pay, Variable pay, Shares, Working clothes | Large company, Company structure, Managers, Performance review, Performance |

5. CONCLUSION

The findings in this study show that the respondents prefer a challenging and interesting work. The same result has been found in earlier studies performed in the United States that showed the majority of the employees feel that an interesting and challenging work is an important motivational factor for performing a good work (Ferratt, et al., 1999; LeDuc 1980; Gill et al., 2001; Agarwal et al., 1998). A challenging and interesting work is an important factor to employees to be motivated and to perform a good work.

The study shows that different types of rewards and reward systems influence to employees in various ways. Rewards and reward systems can either improve commitment or create resistance. Conclusions can be summarized as:

- Fit with the vision, job motivation, information, goal setting, feedback and personal interest are the rewards and reward systems that influence to employees positively. It is therefore logical that job satisfaction also becomes an important factor to be motivated as an employee, which this investigation also indicates. These facts are supported by others (Ferratt, et al., 2001; Bennett 2006).

- Another crucial issue is that the management has to try and maintain a good communication for constant flow of information and to make the employees feel that they really are part of the organization (Ferratt, et al., 1999). Communication is a dynamic and vital process in the organization and an organization where employees lack effective communications cannot acquire necessary capabilities to execute their functions and their motivation will be decreased gradually since communication is a proper ground to exchange information, knowledge and experiences (Al-Taha et al, 2014). Quality of relationship with managers is a reward that improves the commitment to the organization and the change. Although interviewees were not aware, quality of relationship with their manager influenced their behavior and way of thinking in a positive way since some of them implemented the change because it was good for their company.

- Role autonomy by mostly giving the freedom to make decisions was not a reward that influenced the change at all. The organization set the day for implementation of the change and employees followed that. Since it has been kind of forced by the organization, one can expect resistance to the change. However, none of the interviewees mentioned that autonomy was a factor made them resist to being motivated. It is important that managers take care of their employees in a manner that they feel appreciated for their knowledge and that they take an interest in their individual careers and try to help them develop within the organization. It is also important that the managers try to maintain their employees to feel worth fully.

- Influence of the participation (involvement) on the change was clear. However literature proves a positive influence. In this study, it has been found that people on the construction sites have not been involved to the change from the beginning. That is why some of the interviewees mentioned that as a problem. It is obvious that when people are not involved in the process, they do not commit to it either.

- Pay and benefits which found to be the second best factor of motivation after a challenging and interesting work. On the other hand the participants did not mention that pay and benefits would motivate them to do a better work. This contradiction would be interesting to investigate further. The importance of monetary incentives for employees might also depend upon on the current salary and benefits from their employers which would be interesting to study.

- Since interviewees mentioned that they did not like to nag or criticize constantly, close and strict supervision was not used in the case. However the organization’s policy forced project managers to make number of visits to
the construction sites and check the recent safety issues. Thus one can claim that close and strict supervision was partly used though interviewees mentioned that it was not welcomed and it was not motivating them to commit to the change more in contradiction to the theory. Finally, it is crucial that the employers identify the factors which constitute a challenging and interesting work. By doing so, the maximal potential in each employee can be reached and in a whole improve the entire organization to the better. It is also important that scientific investigations are initiated to study this area further. This research should include both quantitative and qualitative methods where the last could be dedicated to reach to the depth on the view upon motivation, rewarding and recognizing. This has to be done by including both employees and management. There might be gaps in the understanding between employees and employers which influences the ways of that motivation, recognition and rewarding is carried out.

REFERENCES


