Impact of Reward Systems on Employee Performance of Service Sector Institutions in Nepal

Gopal Man Pradhan, *PhD*
Associate Professor, Tribhuvan University
Visiting Faculty, Nesfield International College
Email: pradhangopalman@gmail.com

Abstract

Reward management in an organization helps to motivate and retain employees at work. It is an important element of human resource management. It is the process of creating, implementing and controlling an effective reward system in the organization that helps to maintain and improve organizational performance. It emphasizes the strategic purposes of attracting, motivating and retaining employees. Human resources are said to be the human capital that can play significant role for improving competitive advantage and sustaining business activities of all the organizations including financial institutions. This study attempts to analyze the impact of reward systems on employee performance of service oriented institutions of Nepal. Opinion on rewards in terms of salary, bonus, promotion, empowerment, achievement, appreciation, and employee performance from 395 employees of service sector institutions working at managerial, officer and assistant levels are taken into account. Pearson and Spearman Rho Correlation are used to find out the correlation between reward system and employee performance where multiple regression is used to analyze the impact of reward systems on employee performance. The study concluded that reward systems have positive correlation and impact of employee performance of service sector institutions of Nepal.

Keywords: reward systems, employee performance, service sector institutions

Background of the Study

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward employees fairly. The reward should be provided equitably in accordance with employees' contribution to the organization. It is about the design, implementation and maintenance of reward system, which aims to meet the needs of both the organization and its stakeholders. The overall objective of reward management is to provide incentives to the employees in order to achieve strategic goals of the organization. Reward systems is an essential aspect of all the organizations. It can actively involve the employees towards an organization and renovate the overall sense of community and mission of an organization. A properly administered reward system can provide an incentive for quality workmanship and staff performance. Extrinsic reward

system means financial rewards in organizations**.** It can be salaries and wages, bonus plan, fringe benefits and employee's promotion etc. Intrinsic reward system means non-financial rewards in organizations. It can be personal growth, responsibility and completion of task, the achievement of goals, employee's autonomy over job etc.

Employees are called human resources as well as most important assets in modern organizations. Employees are recognized as the most important treasure in developed countries and those countries give high consideration in promotion. Giving rewards is one of the most important elements used to motivate employees so that the employees can develop ingenious ideas that lead to improving business performance both financially and non-financially (Aktar, Sachu & Ali, 2012). Reward system not only assists on organizational contributions but also it accomplishes other objectives such as legal compliance, restraint labor cost, access employee fairness and prolongation of employee performance that raises entire organizational productivity (Maire & Nick, 2002). Satisfied employees show their strong positive cooperation and trust with co-workers and customers (Gautam, 2011). Though the reward system is the main source of employee satisfaction and performance (Adhikari, 2005), there is lack of uniformity in reward systems in Nepalese business entities; it is based on their nature and size of business (Agrawal, 2003).

Statement of Problems and Research Questions

To stay competitive in the industry and increase market share, service sector institutions need to have efficient and effective strategies in different areas of operation. Productivity and success of the company depends a lot on the employee performance and motivation. A comprehensive reward system is an effective management tool for motivating low performing employees, and for increasing job satisfaction of high achievers (Dewhurst et al., 2009). However, due to differences in personalities and personal preferences, some employees are more motivated by extrinsic rewards while others prefer intrinsic rewards. Career and professional development of employees should be also taken into consideration (Andrew & Kent, 2007). Moreover, adequate rewards create a feeling in employees that they are valuable, and their efforts are recognized and appreciated by the management.

Traditional approaches to maximize productivity through improving employee performance are effective in contemporary business environment. Therefore, it is significant for service oriented institutions to take necessary measures to constantly retain and improve employees' motivation which requires an efficient reward system for all the employees. Therefore, this study is focused on the rewards system and its impact on employee performance with respect to service sector institutions as a case study. This

research work is concentrated to investigate in three main areas consisting existing reward system in service oriented institutions; explore their strengths and weaknesses, and point out potential improvements of the system to increase employee performance. The service sector industries that have been selected for the study involve telecommunication, airlines and hospitals. Many management scholars mentions earlier that the impact of a reward system on employee performance is strong which in turn, influences the whole organizational performance, therefore reward systems can be used as tools to maximize productivity of employees and gain competitive advantage in the market. Based on the literature, following questions are taken into the consideration for this research work.

- What is the present status of reward systems in service sector institutions in Nepal?
- What is the relationship between reward system and employee performance in service oriented institutions in Nepal.
- What is impact of reward systems on employee performance in service sector institutions in Nepal?

Research Objectives

The major purpose of conducting this study is to examine the relationship of reward system on employee performance in Nepalese service industry. The overall objectives of the research are classified into following three statements.

- To assess the present status of reward systems in service sector institutions in Nepal.
- To examine the relationship between reward system and employee performance in service oriented institutions in Nepal.
- To analyze the impact of reward systems on employee performance in service sector institutions in Nepal.

Theories of Linking Reward Systems and Employees Performance

Management of reward systems in an organization helps to motivate and retain employees at work which is an important element of human resource management. A well designed reward system leads an organization towards higher productivity and employee satisfaction. Moreover, reward management is the process of creating, implementing and controlling an effective reward system in the organization that helps to maintain and improve employee and organizational performance. It is the reason there must be proper reward system in the organization based on employees skills, efficiency and job responsibility along with resources of the institutions.

Reward systems

Reward systems are executed by organization, are considered as a way to motivate employees to achieve organizational objective. Managing human resource is one of most important tasks that get highest consideration in the organization and as a result, employees became the most valued asset of an organization (Szilagyi & Wallace, 1981). Reward system can be narrated as a jacket of all interconnected action and mechanism that are assembled together in order to ensure the betterment of an organization and also for the involved employees of that institution (Armstrong, 2008). Organizations use reward system as an essential instrument in stimulating employee's enthusiasm in the positive way to build up work turnout and also help to attain the expected organizational goals in order to work out the reward system. Reward systems are also considered as tools for raising employees' awareness and also add value to the employees work according to their position to the organization (Partheepknath, 2011). Reward systems play an indispensable performance in case of expanding the number of awards of an employee and also modify the manners of a displeased employee. It is also included that the legitimate procedures of reward system also raise high contentment of an employee towards job (Mehmood, Ramza, & Akbar, 2013).

Rewards may be studied in two dimensions consisting of extrinsic rewards and intrinsic rewards. Extrinsic rewards offer the job holder in the job context only. They are external to the job. They are the combination of direct-indirect financial rewards and non-financial rewards. When more expected rewards of extrinsic nature are in the hand of the top management, employees look to the management for such rewards. When employees have extrinsic rewards they do the assigned job in effective way. The examples of extrinsic rewards are: pay, fringe benefit, job security, good working condition, supportive supervision, status, power, promotional opportunities, group working atmosphere, respect, recognition, praise, and so on. Intrinsic rewards are the satisfaction that employees obtain from their job themselves. They are directly related to job content. They are internal and integral to the work itself. They are self granted and internally experienced by an individual. Intrinsic rewards are earned when the individual perceives a match between himself and his job. Successful task performance automatically produces intrinsic rewards. The examples of intrinsic rewards are: sense of achievement, involvement, independency, participation, self-esteem, challenge, self-responsibility and self-development.

Employee Performance

The performance of employee which exists in activity and organizational psychology is considered as fundamental theory. Although specific staffs acts is important and the comprehensive inquiry into the interrelationship in the middle of work presentation and

administrative results, a broad definition has been developed for constructing very little effort and precision has been provided in the metrics for its assessments (Sonnentag & Frese, 2002). Taking the initiative of complex valuable activities that combine skills and knowledge to give an effective outcome; and a group of people involved in a performance or a collaborative effort as individuals. It can also be said that staff actions can be narrated as an activity performed by a staff to make a viable or an effective result (Elger, 2007). There is a positive impact of employees reward on the basis of individual performance, including the overall performance of an organization. It can be through bonus or launching rewards or organizational recognition or appraisement (Yang, 2008). Most companies pay less devotion to the level of contentment of their personnel in order to achieve the contentment of their customers, forgetting that without satisfying the personnel, the performance level is usually lower which will eventually lead to customer discontentment (Ahmad, Wasay, & Malik, 2012). Emphasis is placed on rewarding employee performance with the argument that when employees are less encouraged, they become unsuccessful in case of bidding their job, because they put fewer attempts into the workplace (Azar & Shafighi, 2013). Staff act is considered as a degree that incorporates both efficacy and usefulness. It is further emphasized that a direct way of assessing employee performance is through the unit output of staffs during the unit period (Bhatti & Qureshi, 2007). The management of individual performances within an organization has traditionally centered on performance appraisal and award allocation, with effective performance seen as a result of interaction between effective skills and motivation. It is increasingly acknowledged that planning and performance in a competent environment have a serious impact on individual performance, with goals and standards, appropriate resources, guidance and managerial support all becoming central (Torrington et al., 2009). Human resource strategies and principles actually affect organizational as well as individual performance. The performance of employees within the discipline of human resource management has been portrayed as a multidimensional concept. At the most basic level, employee performance is of two kinds: functional and contextual performance (Sonnentag & Frese, 2002).

The Relationship between Reward and Employee Performance

Rewarding high-performance levels in the real world is very essential because it performs and controls employees' activities. In fact, reward approaches ensure the level and addition of non-monetary and monetary rewards needed to fascinate, maintain and encourage skilled and semi-skilled workers to enrich the organization. Even though some of these benefits are monetary forms, such as salary sacrifices and competitive pay options, there are many monetary paybacks that companies can provide to their

employees. Indeed, there are some of the factors that can encourage staffs. Therefore, for a manager, it is important to know how to encourage real employees.

Explicit reward practice should be done by simplifying the connection between the reward given and the extra effort. There are also warnings about rewards managed within the rewards system. In this regard, it is suggested that in order to achieve positive motivational assets, companies should distribute encouraging rewards depending on performance. In fact, managers who try to run a fair rewards system seem to be more prosperous in the workplace than rewards for unjust behavior (Porter, Lawler, & Hackman, 1975). In this case, the need to be impartial in rewarding others seems to be clearly assumed from a theoretical point of view, the unfairness of performance appraisal is often narrated in various economic studies. Thus, clear justice is needed to run an optimistic association with an organization winning awards (Prendergast, 1999). It also investigates the impact and effectiveness of financial incentives; and they showed that individuals who received individual inspiration performed better than those in control (Bergum & Lehr, 1964). This study is conducted in search for model competent to predict job commitment as well as satisfaction. The results of the study showed that job satisfaction was the most expected by job rewards; and the promise of the work was best predicted by an arrangement of value, reward and investment. In fact, external and internal rewards motivate employees and this motivation leads to the realization of a higher performance level (Farrell & Rusbult, 1981).

Various studies such as Dewhurst, Guthridge, and Mohr (2009) concluded that an adequate reward system is critical for employee motivation both for high achievers and low achievers. This is because rewards increase the job satisfaction among high performers and act as an incentive for low performers. The systems may vary in different organizations because of workforce personalities, backgrounds and preferences; hence, all reward systems have the same objective to motivate employees for continuous improvement, personal development and professional growth. Overall organizational performance consists of the sum of performances of every individual in a company (Kim, 2010). The reward system of a firm is used as a tool to monitor performance of employees as well as a method to motivate employees. Therefore, service oriented institutions implement reward system to stimulate the performance of their employees. The efficiency and effectiveness of the organization depends upon individual effectiveness and efficiency in achieving individual tasks and duties.

It is strongly stated that promotions build chances for individual improvement, increase the level of responsibility and increase social status. Similarly, recognition is the central point of employee motivation as it realizes the appreciation of an employee and confers

dignity on the individual as well as being an employee of the organization (Robbins, 2015). Another research conducted by Shields and associates (2015) advocated that the reward system should be implemented based on the needs and preferences of employees as someone's needs may be fulfilled by monetary rewards while others are searching for promotion, appreciation, increase of responsibilities, trainings and other types of non-monetary rewards. An efficient reward system should be flexible and contain both monetary and non-monetary rewards to fulfill the expectations of all employees.

Theoretical Framework

This study focused on reward systems consisting of extrinsic rewards and intrinsic rewards and its impact on employee performance (Figure 1). Salary, bonus and promotion are taken as proxies of extrinsic reward. Similarly, three variables of intrinsic rewards consisting of empowerment, achievement and appreciation are taken into account for analysis.
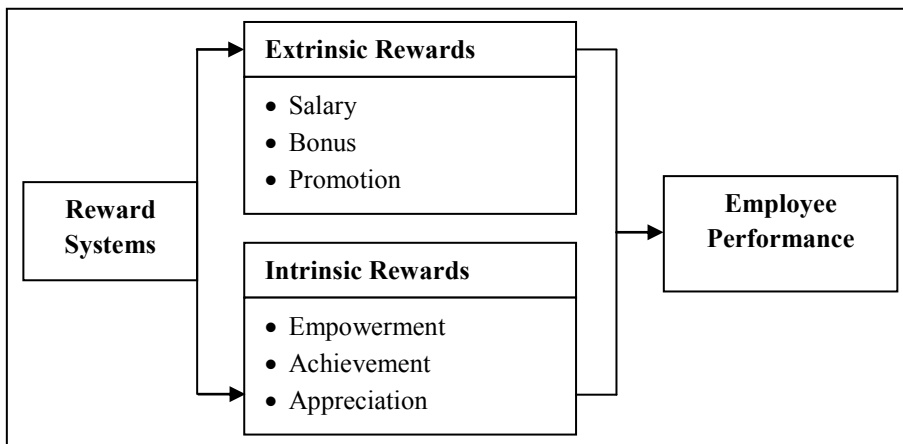

Figure 1. Theoretical framework

Nature of Research

This study is based on primary data obtained by distributing questionnaires to selected respondents of service oriented institutions of Nepal consisting of telecommunications, hospitals, and airlines. Therefore, it is descriptive, co-relational, causal comparison type of research. In this research some selected reward systems related variables have been taken into account for getting feedback from both managerial and assistant level employees. In this study it is tried to find out the impact of rewards system on employee performance in Nepalese service sector institutions.

Research Design

The research designed adopted in this study consists of descriptive, co-relational, and causal comparative research design to analysis the various issues are raised. The descriptive research design is used for the purpose of fact-finding, conceptualization, description, and operation searching for adequate information in the context of reward systems and their impact on employee performance. The research design adopted in this study is identical as of Huselid (2002).

Research Hypothesis

The broad objective of this study is to explore the relationship between reward systems and employee performance in Nepalese service sector institutions especially of telecommunications, hospitals and airlines. On the basis of the given objectives and defined relations, following hypotheses are explored:

Hypothesis 1: There is a positive and significant relation and effect of extrinsic reward systems on employee performance of service sector institutions of Nepal.

Hypothesis 2: There is a positive and significant relation and effect of intrinsic reward systems on employee performance of service sector institutions of Nepal.

Hypothesis 3: There is a positive and significant relation and effect of overall reward systems on employee performance of service sector institutions of Nepal.

Nature and Sources of Data

For the purpose of fulfillment of the objectives of the research, necessary data and information was collected through primary sources i.e. questionnaire. Data used in this study were collected from Nepal Telecom Company, Ncell Pvt. Ltd., B&B Hospital Pvt. Ltd, Bhaktapur Hospital, Nepal Airlines Corporation and Buddha Airlines Pvt. Ltd. In this survey research, two categories of information namely detail information of respondents about reward systems and employee performance was collected for analysis. The questionnaire was developed from prior literature. Basically, normative theory of maintaining link between reward systems and employee performance was taken into account in this research work.

Population and Sample Size

The tools are used by the researcher with the help of academician friend circle and guidance from professionals. The researcher explained the purpose of the study and all aspects of the questionnaire to the respondents. The selected respondents are employees working in different levels consisting of managerial, officer and assistant levels. They

are made to understand that all information being provide would be treated with confidentially and for the purpose of research only. In this study, employees of two telecommunications, two airlines and two hospitals are taken into account as samples to analyze. In total 425 questionnaire have been distributed and 395 (92.94%) copies that are completely filled and returned are utilized for the purpose of the study.

Results of the Study

Table 1 showed the Pearson correlation and Spearman Rho correlation between various reward systems variables Salary (Sa), Bonus (Bo), Promotion (Pr), Empowerment (Em), Achievement (Ac), and Appreciation (Ap) and employee performance(EP). The P-value is presented in the parenthesis, and * and ** represent that the coefficients are significant at 5 percent and 1 percent level respectively.

Table 1

Correlation between Variables

Variables	Sa	Bo	Pr	Em	Ac	Ap	EP
Salary (Sa)	1						
Bonus (Bo)	.365**	1					
Promotion (Pr)	.281**	.269**	1				
Empowerment (Em)	.405**	.558**	.616**	1			
Achievement (Ac)	.366**	.594**	.655**	.436**	1		
Appreciation (Ap)	0.123	0.243	0.545	. 561	0.354	1	
Employee Performance (EP)	0.596	. 546	0.456	0.326	0.346	326	1

**. Correlation is significant at the 0.01 level (2-tailed).

The Pearson correlation showed that there are positive correlations between employee performance and both extrinsic and intrinsic reward systems variable and they are statistically significant at 5 percent level. The correlation results suggested that there is positive association between reward systems of employee performance but salary has high level of correlation with that of employee performance. The result also indicated that there is positive relationship between reward systems and employee performance. The result is supported by prior hypothesis set by Huselid, 2002. Furthermore, the result concluded that higher the reward systems tend to higher the employee performance.

Effect of Reward Systems on Employee Performance

In the regression model, employee performance is considered as dependent variable Y and six reward systems variables consisting salary, bonus, promotion, empowerment,

achievement, and appreciation are considered as independent variables. Detail of regression result on employee performance is presented in Table 2.

Table 2

Regression Result on Employee Performance

Model	Unstandardized Coefficients		t	Beta	Sig.
	B	Std. Error			
Constant	6.452	0.745			0.000**
Salary (Sa)	0.451	0.052	4.212	0.228	0.025*
Bonus (Bo)	0.415	0.041	3.912	0.218	0.021*
Promotion (Pr)	0.334	0.043	3.321	0.208	0.000**
Empowerment (Em)	0. 323	0.053	3.219	0.131	0.031*
Achievement (Ac)	0. 343	0.054	3.152	0.122	0.021*
Appreciation (Ap)	0. 312	0.051	3.119	0.201	0.031*
R= 0.353, R^2=0.285, Adj R^2=0.258, F-Value=28.124					

$Y = a + b_1 Sa + b_2 Bo + b_3 Pr + B_4 Em + b_5 Ac + B_6 Ap + e$

$= 6.452 + 0.451 Sa + 0.415 Bo + 0.334 Pr + 0.323 Em + 0.343 Ac + 0.312 Ap + e$

T = (6.452) , (4.212), (3.912), (3.321), (3.219), (3.152), (3.119)

p- value = 0.025*, 0.021*, 0.000**, 0.031*, 0.021*, 0.031*

R= 0.353, R^2= 0.285, Adjusted R^2= 0.258, F- Value= 28.124

Overall p-value = 0,000**

It is found that only 28.5% of the total variation is explained by this. The F- value is 28.124 and overall p-value is 0.000. Thus, the multiple regression model used in this study is fit and appropriate because ANOVA table shows that the F- value is significant at 5% level of significant.

The calculated p-values of salary, bonus, promotion, empowerment, achievement and appreciation are .025, 0.021, 0.000, 0.031, 0.021, and 0.031 respectfully which are significant at 5% level of significant. Therefore, all the six variables are the predictors of employee performance. While analyzing the beta coefficient, salary sensitivity to employee performance is high (0.228) followed by bonus (0.218), promotion (0.208), appreciation (0.201), and empowerment (0.131) and achievement (0.122). All the variables have positive impact on employee performance. However, salary has the greatest impact on organizational citizenship behaviour as compare to other variables.

Summary of the Study

This research work is stated from background of the study, statement of problems and research questions, research objectives, theories of linkage between reward systems and employee performance, and theoretical framework of the study. Besides, this study involve detail information about nature of research, research design, research hypothesis, population and samples, status of reward systems in Nepalese service sector institutions, Pearson and Spearman Rho Correlation, and multiple regression analysis to know the effect of reward systems on employee performance. The multiple regression model is used to know the effect of reward systems on employee performance where the R^2 is 0.285, it means that only 28.5% of the total variation is explained by this model and other part of explanation is made by other variables which are not included in this study. The F- value is 28.124 and overall p-value is 0.000. While analyzing the beta coefficient, single variable salary sensitivity to employee performance is high followed by bonus, promotion, appreciation, empowerment and achievement respectively. Therefore, all the six variable of reward systems are considered as valuable and significant predictor of employee performance. It is found that all six variables of reward systems consisting of salary, bonus, promotion, empowerment, achievement, and appreciation have positive impact on employee performance of service sector institutions of Nepal.

The primary purpose of this study was to evaluate the impact of reward systems. Based on the result and with the support of Huselid (2002), it can be concluded that reward systems have positive correlation and impact on employee performance of service sector institutions of Nepal. Further, it can be generalized that if Nepalese service sector institutions invest a significant amount of effort for developing proper reward system, they can attain higher organizational performance as a result of improved employee performance.

References

Adhikari, D. R. (2005). Human Resource Management: Integrated and Organizational Performance. *Banijya Sansar , 12*, 31-37.

Agrawal, G. R. (2003). Innovative HR Practices and Organizational Commitment: an Empirical Investigation. *International Journal of HRM , 14* (2), 175-198.

Ahmad, M. B., Wasay, E., & Malik, S. U. (2012). Impat of Employee Motivation on Customer Satisfaction: Study of Airline Industry in Pakistan. *Interdisciplinary Journal of Contemporary Research in Business , 4* (6), 531-539.

Aktar, S., Sachu, M. M., & Ali, M. E. (2012). The Impact of Rewards on Employee Performance in Commercial Banks in Bangladesh: An Empirical Study. *IOSR Journal of Business and Management , 6* (2), 9-15.

Armstrong, M. (2008). *Employee Reward Management and Practice* (2nd ed.). New Delhi: Kogan Page.

Azar, M., & Shafighi, A. A. (2013). The Effect of Work Motivation on Employees' Job Performance (Case Study: Employees of Isfahan Islamic Revolution Housing Foundation). *International Journal of Academic Research in Business and Social Sciences , 3* (9), 432-445.

Bergum, B. O., & Lehr, D. J. (1964). Monetary Incentives and Vigilance. *Journal of Experiment Psychology , 67* (2), 197.

Bhatti, K. K., & Qureshi, T. M. (2007). Impact of Employee Participation on Job Satisfaction, Employee Commitment and Employee Productivity. *International Review of Business Research Papers , 3* (2), 54-68.

Dewhurst, M., Guthridge, M., & Mohr, E. (2009). Motivating people: Getting beyond money. *McKinsey Quarterly , 1* (4), 12-15.

Elger, D. (2007). *Theory of Performance: Faculty Guidebook.* Pacific Crest: University of Idaho.

Farrell, D., & Rusbult, C. E. (1981). Exchange variables as predictors of job satisfaction, job commitment, and turnover: The impact of rewards, costs, alternatives, and investments. *Organizational Behavior and Human Performance , 28* (1), 78-95.

Gautam, D. K. (2011). Changing Perspectiges of Managing Human Resources in Nepal. *Proceedings of Nepalese Academy of Management , 1* (1), 65-78.

Huselid, M. (2002). The impact of human resource management practices on turnover, productivity and coporate financial performance. *Academy of Management Journal , 38* (3), 635-673.

Kent, A., & Andrew, D. P. (2007). The impact of perceived leadership behavors on satisfaction, commitment, and motivation. *International Journal of Coaching Science , 1* (1), 37-58.

Kerrin, M., & Nick, O. (2002). Collective and individual improvement activities: The role of reward systems. *Personnel Review , 31* (3), 320-337.

Kim, B. P. (2010). *Work family conflict and its job consequences: From attitudes to behaviors to the bottom-line.* Dissertation for Doctor of Philosophy, Virginia Polytechnic Institute and State University, Virginia.

Mehmood, S., Ramzan, M., & Akbar, M. T. (2013). Managing performance through reward system. *Journal of Education & Research for Sustainable Development , 1* (1), 1-8.

Partheepknath, P. (2011). Reward system and its impact on employee motivation in commercial bank of Sri Lanka Plx, in Jaffna Distric. *Global Journal of Management and Business Research , XI* (IV), 84-92.

Porter, L. W., Lawler, E. E., & Hackman, J. R. (1975). *Behavior in Organizations.* New York: McGraw-Hill.

Pradhan, G. M. (2019). Job Design, Compensation and Commitment of Employee in Service Sector Organizations of Nepal. *Pranayan, Research based Journal , 3* (1), 53-59.

Prendergast, C. (1999). The provision of incentives in firms. *Journal of Economic Literature , 37* (1), 7-63.

Robbins, S. P. (2015). *Organizational Behaviour* (5th ed.). New York: Prentice-Hall Inc.

Shields, J., Brown, M., Kaine, S., Dolle-Samuel, C., North-Samardzic, A., McLean, P., et al. (2015). *Managing Employee Performance and Reward: Concepts, Practices, Strategies.* Cambridge University Press.

Sonnentag, S., & Frese, M. (2002). *Performance Concepts and Performance Theory.* (S. Sonnentag, Ed.) UK: John Wiley & Sons Ltd.

Szilagyi, A. D., & Wallace, M. J. (1981). *Organizational Behavior and Performance* (2nd ed.).

Torrington, D., Hall, L., Taylor, S., & Atkinson, C. (2009). *Fundamentals of Human Resource Management* (1st ed.). Canada: Pearson Education Limited.

Yang, H. (2008). Efficiency, wages and subjective performance pay. *Economic Inquiry , 46* (2), 179-196.