



## Employee Rewards in HRM and its impact on Employee Engagement in an Organization

Prof. Sharon D'souza

Atharva Institute of Management Studies, Mumbai, Maharashtra, India

### ABSTRACT

This research paper focuses on the effect of reward systems on employee engagement in the modern work environment. Reward Systems have evolved over the years beginning effectively from the era of Industrial Revolution that unleashed mankind's creative potential. Over a period of time Reward Systems have been structured and subjected to severe transition to be equitable and fit effectively with the organizational goals and to fulfill various organizational needs. This paper endeavors to explore the relation between Rewards and one such crucial organizational requirement, 'Employee Engagement'. It highlights the role of rewards and traces its significance to enhance employee engagement in today's organization. Finally, it discusses the measures that can be adopted to improve this relation.

**Keywords:** Organizational Rewards, Employee Engagement, Employee Recognition, Strategic Reward system, Human Resource Management, Organizational Productivity

### 1. INTRODUCTION

***"People work for money but go the extra mile for Recognition, Praise and Rewards."***

***– Dale Carnegie***

The very first act of employee recognition was recorded 2600 years ago in Modern-day Iran. This initial act of rewarding employee efforts was brought about by Cyrus the Great, founder of the Achaemenid Empire to reward the construction workers to reconstruct the Temple of Jerusalem Temple in 538 B.C. The archaic recognition package encompassed

an amalgamation of a shoulder pat, a beverage and a coin featuring Cyrus' head. In the span of 26 centuries, we have perhaps grasped the vast influence rewards have on altering Employee behavior positively.

**'Rewards and Recognition sends signals regarding organizational culture and values'**. - James Guthrie (Guthrie, J P (2007) Remuneration: pay effects at work, in Oxford Handbook of Human Resource Management, ed P Boxall, J Purcell and P Wright, Oxford University Press, Oxford).

There are many ways to achieve optimum employee engagement, but one that is often overlooked is a highly effective reward and recognition strategy and system.

According to Sigmund Freud, "Employees whose exceptional work is well-appreciated will continuously strive to deliver exceptional work as compared to their unappreciated brethren. This doesn't draw a straight analogy between employees and Pavlov's dogs who salivate at the sound of a bell. In fact it means that, from employees you get what you recognize. The mantra is to **Recognize, rinse, and repeat.**

In his influential book, Strategic Pay, 1990, Ed Lawler wrote that: 'The challenge is to develop pay programs that support and reinforce the business objectives of the organization and the kind of culture, climate and behavior that are needed for the organization to be effective.' {Lawler, E E (1993)}

*Who uses skill-based pay, and why, Compensation & Benefits Review, March–April, pp 34–42*). A rewards system, personal thank you, or internal announcement on your intranet strikes a personal chord that makes employees feel valued.

According to Duncan Brown ‘The alignment of your reward practices with employee values and needs is every bit as important as the alignment with business goals, and critical to the realization of the latter’. (Brown, D (2001) *Reward Strategies: from Intent to Impact*, CIPD, London)

## 2. Review of Literature

### 2.1 Rewards in the context of an Organization

(Chiang and Birch, 2008) defines Reward as a wide construct that represents everything that a particular employee might consider of importance that an employer is willing to offer in return for his or her contributions. Further, emphasizing that the absence of rewards shall create an unpleasant organizational environment, diminishing employees’ efforts ultimately causing them to withdraw from their respective jobs. Ergo, rewards are highly significant especially as the competition increases continuously. The primary objective of rewards is to attract and retain employees, motivating employees to achieve a very high level of performance. It is a tool to elicit and reinforce desired behavior of the employees.

Armstrong (2006) defines Reward management as the formulation and implementation of strategies and policies with the ultimate goal to reward people fairly, equitably and in a consistent manner, which should be perfectly aligned with the organizational values in order to permit the organization to realize its strategic goal.

Towers Perrin (2007) conceptualizes reward system as a holistic compensation (pay and bonuses), benefits, effective learning and development and positive work environment. Perrin, 2007 and Armstrong, 2006 states two primary organizational motivators as monetary and non – monetary incentives.

(Mossbarger and Eddington, 2003) Though not a long term motivator, organizations tend to use financial rewards to avoid employee dissatisfaction and to motivate employees.

A highly significant determinant to **employee satisfaction and engagement** is Perceived fairness in the allocation of Rewards. It is proved in both Western Organizational Research and Cross Cultural Comparisons. (DeConinck and Stilwell, 2004; Hundley and Kim, 1997; Kim et al., 1990)

An increasing need for organizations to develop reward systems is seen evidently in today’s modern world. This need exists in order to motivate staff to work harder and faster. Effective reward systems funnel employees’ efforts in the correct direction towards acquiring its goals. (Mujtaba & Shuaib, 2010).

### 2.2 Significance of Employee Engagement

Employees who are highly engaged with their job and employer are highly productive. This is because they are motivated beyond their personal factors. They are far more focused and more motivated as compared to their disengaged counterparts. This signifies that they work in an efficient manner and with the success of the entire organization in mind. Research consistently shows that a low degree of employee engagement is detrimental to performance. As a matter of fact, it has been proved that employees who are highly engaged are twice as likely to be the top performers (Taleo Research, 2009).

Also, it is found that engaged employees are far less likely to leave their job. If an employee has no particular emotional commitment to their job, there is a higher chance that the employee will leave to pursue a job that offers it. For instance, higher remuneration or more flexible working conditions is the key, further confirming that engagement lowers employees’ intention to leave the organization. (Haid & Sims, 2009; Schaufeli & Bakker, 2004)

A high level of employee engagement tends to elevate focus and efficiency, further decreasing the rate of absenteeism. It is seen that engaged employees care a lot about how they impact the organization, they recognize the significance of their effort in contributing to the success of their employer. This signifies that employees constantly turn up to work and work in a highly efficient and competitive manner while they are in an organization that lays a major impetus on employee engagement. (Nahrgang, Morgeson & Hofman, 2011; Harter, et al. 2009; Gonring, 2008). Considering the numbers, it is quite clear that engagement plays a highly significant role in determining the rates of absenteeism. It was found

by Harter et al. (2009) that absenteeism was 37% higher in organizations scoring in the bottom 25% on engagement. This has a high impact on practical implications for businesses' bottom lines and productivity in the overall scenario. Empirical study by (Mujtaba & Shuaib, 2010) exhibited that an effective employee reward system forms an important element of a comprehensive performance management programme. This can further enhance performance, engagement and productivity in the workplace.

### 2.3 The Link between Reward Management and Employee Engagement

In today's global scenario, Managers are persistently seeking for motivational factors that tend to enable employees to fulfill their tasks and accomplish organizational goals to an optimum level. An amalgamation of both monetary and non-monetary incentives are utilized to ensure employees' effectiveness at the workplace (Blunt & Jones, 1992). There are findings that link Reward measures (monetary and non-monetary) in a positive manner to organizational performance as they assist in maintaining a positive motivational environment that is relevant in enhancing organizational performance (Armstrong, 2006; Kepner, 2001; Kirunda, 2004). Social Exchange theory (Blau, 1964) states that when employees perceive that they have received competitive rewards as per their competency, they not only feel gratified but also feel obliged to restore the equilibrium or stability to the relationship of employee-employer-organization, reciprocating in a positive manner. (Sprecher, 1999; Flynn, 2005). This theory is further justified by a study that demonstrates that there is a positive link between the fairness of the compensation and

workers' stress level, engagement and burnout on the job (Schaufeli & Bakker, 2004). The effectiveness of the organizational rewards not just affects employee engagement but also ultimately impacts the organizational productivity.

### 3. Objective and Need for the Study

The primary aim of this research paper is to discern viability of the relation between Rewards, Recognition and Employee Engagement which are the significant pillars of Human Resource Management (HRM) in an organization. Subsequently, it endeavors to suggest measures to sustain and improvise this relation with the terminal goal of Organizational Productivity.

#### ➤ Dire need for Employee Engagement

**Engaged Employees provide better service – creating engaged customers, who in turn spur your company's growth, profitability, and stock price.** When a professional gets engaged, he or she expresses cognitive and emotional attachment to his/her respective role. As per a 2015 research study by Gallup, companies are maximizing only 5% of their workforces. It stated this as a wake-up call for companies and business leaders. Employees even with the longest tenure are least likely to be engaged. The study highlights non-alignment of Talent Tenure, Rewards and Recognition, Organizational and Employee Goals.

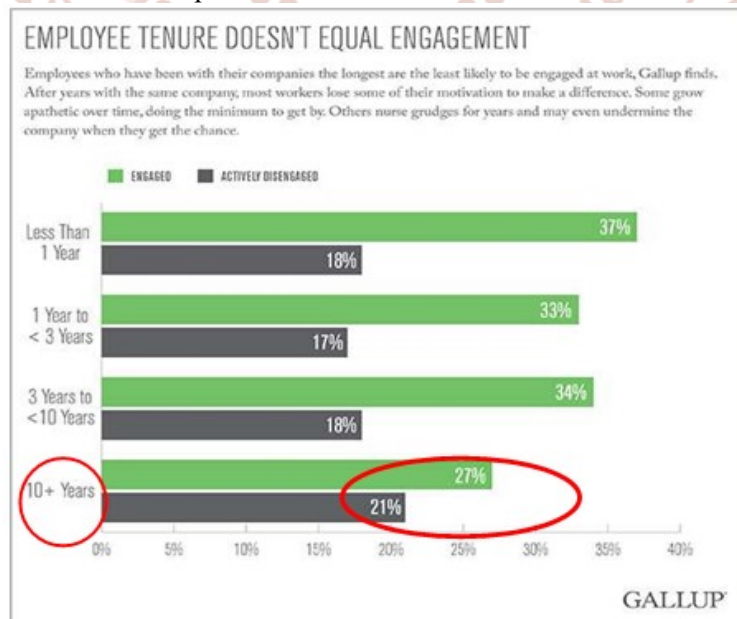
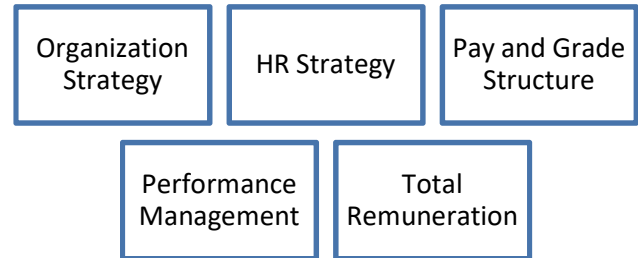


Image Courtesy: Gallup Business Journal Dated MARCH 24, 2015

Structuring Strategic Organizational Reward and Recognition System in proper alignment with employee goals is crucial. Gallup's research indicates that employees are most likely to be engaged and to be retained with their companies when they feel that their managers understand, acknowledge them and give them the platform to perform to the best of their abilities. Engagement fueled with competitive reward system makes a big difference. Talent that is recognized appreciated and rewarded fairly increases the rate of Engagement and Productivity.

management assists in getting these organizational values enacted within the organization. Ergo, it is a holistic field that includes beliefs that have to operate in accordance with the principles of distributive and procedural justice in an organization.

### Holistic Components of an Ideal Reward System



#### 4. Research Methodology:

In order to perform this Research Study, the methodology used was that of a Descriptive Research. The research gauges the Qualitative Data on the research area of Rewards, Recognition and its link with Employee engagement within the purview of an organization in the modern evolving world. Cases and studies that have been conducted (individual as well as relative) were analyzed and its excerpts have been registered to understand the **HRM Rewards-Recognition- Engagement** Relation in a holistic manner from different perspectives. Finally, aiming to suggest measures if any to enhance this relation to elevate organizational productivity.

#### ➤ Organizational Rewards:

*"If you pick the right people and give them the opportunity to spread their wings and put Rewards as a carrier behind it, you almost don't have to manage them." - Jack Welch*

The primary objective of Organization Rewards is to Attract, Maintain and Retain, good, efficient, motivated and high performing employees. Rewards can be an amalgamation of various elements given to employees in order to recompense for their merits or hardships. It is concerned with the formulation and implementation of strategies and policies that are to reward people fairly, equitably and consistently in accordance with their value in the organization.

#### 5. Research Analysis

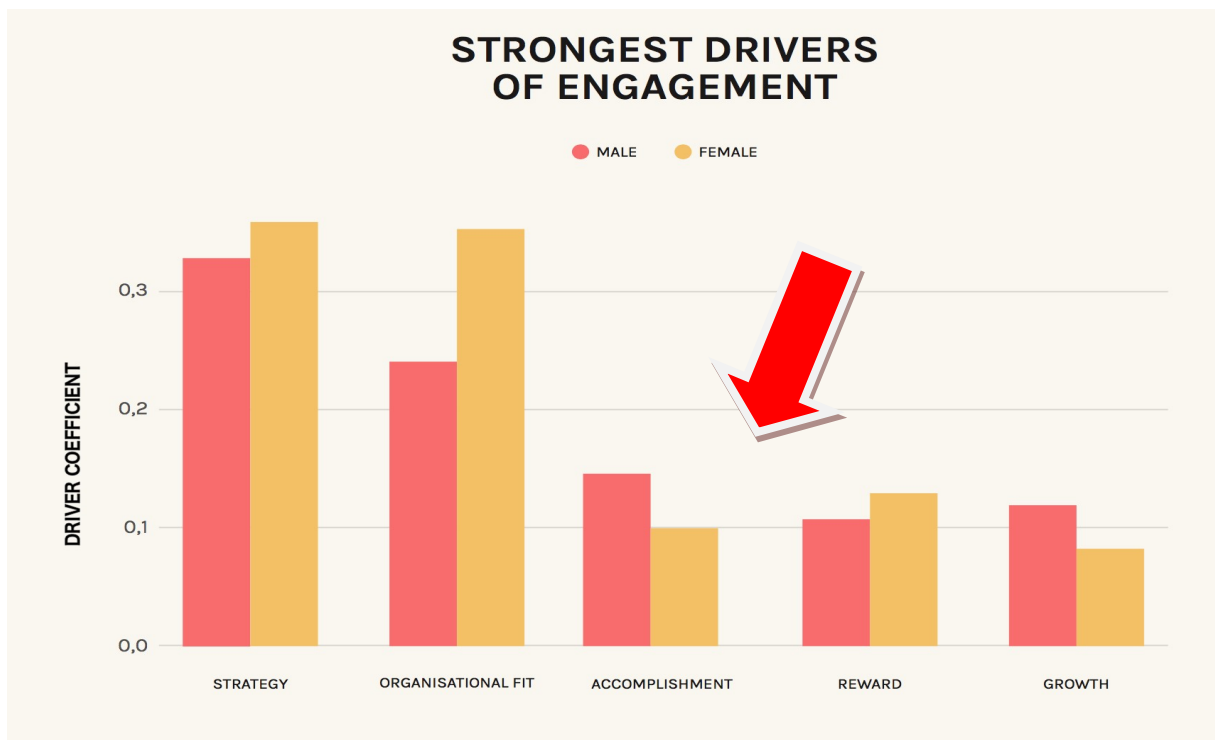
##### ➤ Rewards and Recognition

There is a subtle difference that exists between Rewards and Recognition. It is important to note this difference for their successful implementation in an organization. Rewards are used as incentives to enhance performance but not necessarily used to recognize the achievements. On the other hand, Employee recognition is a medium to acknowledge the employee contributions and achievements of your team.

##### ➤ Reward philosophy

**Strategic reward management** is a field that has its foundation built on a well-articulated philosophy. This encompasses a set of beliefs that have to be reflected through guiding principles that are aligned with the values of the organization. Further, Strategic reward

Selecting the right kind of praise also matters. It is significant to find out what forms of recognition the employees prefer – such as a handwritten thank-you note, an email expressing appreciation, a personal visit from the boss, or a public announcement of the person's achievement during a team departmental meeting. During tough economic times, when monetary rewards dry up, a word of support and appreciation or a team lunch to celebrate a success can still go a very long way – and cost little. In the below Image, we see Reward as the fourth most strongest driver of Employee Engagement.



**Image Courtesy: Fortune.com - Article on Drivers of Employee engagement and motivation by Laura Cohn (Dated October 25, 2016)**

Note: ‘Driver coefficient’ on the y axis shows how strong an impact each aspect of one’s job (e.g. Reward) has on employee engagement.

Time is of essence and often determines the effectiveness of the Strategic Recognition applied. Ergo, it is crucial for the employees to know sooner rather than later in order to get the most optimum results and keep the morale high.

**Impacts of Effective Reward System in an Organization**

➤ **Enhanced productivity:**

It is a given that people want to receive recognition for their efforts and achievements. In a study by **Westminster College**, 69% of the employees stated that they felt motivated to work harder and pursue organizational goals when they perceive that their efforts were better appreciated by the management. Receiving a positive recognition from management and coworkers makes them more likely to acquire and exceed goals.

➤ **Higher engagement levels:**

As per a 2017 research by **Globeforce**, Companies experience high employee engagement rates, an approximate rise of 48%, when they utilize Strategic recognition. Strategic Recognition is a Reward system in perfect alignment with the organizational and employee goals. However, the research implies that

➤ **Motivation to develop skills:**

The time and effort it takes to cultivate new skills should not be overlooked. Findings of the global career April 2015 employee survey released by **Right Management**, the global career experts within the **Manpower Group (NYSE: MAN)**, state that 53 % of employees have answered “respect for their knowledge and experience” as a top expectation from the management team. Implementing an effective employee recognition program linked with the Organization Strategy, shape better employees. It creates a Win-Win situation. Leaders are able to praise the employees for their abilities which further instill motivation in them to develop and perform better.

➤ **Reduces Employee Turnover**

Rewards and Recognition that are competitive and well-organized can act as a solution to curb employee attrition.

According to a recent survey by **BambooHR**, on 1000 U.S.-based, full-time employees there exists a strong correlation between satisfied employees and

recognition for the work they perform in an organization. 83 percent of employees who worked in a company with a structured and well-aligned recognition program stated that they were content with their jobs.

Though it is seen that monetary rewards has been generally ranked at the first place stimulus in organizations, there are several employees who also value alternatives such as:

- **A company or team-wide email recognizing the individual**
- **A title promotion**
- **In-person recognition from a manager or a peer**
- **A raise or other type of monetary bonus**
- **Extra vacation days**

#### 6. Suggestive Measures to enhance Organizational HRM Reward system to drive employee engagement effectively

- **The Role of Organizational Leaders in creating rewards and recognition initiatives that makes a difference to the organization culture and employee behaviour.**

It is identified that the key to this is striking a balance between Discretion and Power. Discretionary Budgets are an important tool to calculate, identify the scope and also the impact of rewards and recognition. This enables the leaders or those at the managerial positions to set a bar and helps them to strike a perfect balance between cash and non-cash rewards to motivate the employees. On the other hand, Power to take individual decisions assists them to discern rewards that are in alignment with the desired behavior to sustain productively in the Organization Culture.

- **The Role of Technology**

Today's world is constantly evolving and technology is a significant element that has lead to dramatic alterations in the HR World too. Recognizing and rewarding the staff can be considered as an effective solution to tackle poor employee engagement rates.

- **Feedback System**

In the current scenario of the VUCA (Volatile, Uncertain, Complex and Ambiguous) world, there is a dire need for streamlining processes and putting an

effective feedback system in place. A new answer has emerged in such a volatile world: "Let people express their views about it." A novice era of real-time, pulse, anonymous feedback and culture applications has arrived. This signifies that "**Feedback is the Killer App**" for management professionals. Today, the word "Feedback" is a buzzword in HR. When the floodgates to feedback opens up in a positive and extremely constructive way, there is an immediate derivation of solutions to run the operations in a more efficient manner.

It is important to encourage employees to be as specific as possible about the sources of dissatisfaction. If a worker asks for more money, it is more than often that such requests represent a hunger for appreciation, dignity and respect. In such cases, it is advisable to invite the employee to make a list of what appreciation would look like on the job.

A strong reward and recognition program requires a certain level of mindfulness and a dedicated effort to showing your employees that you notice and appreciate everything they bring to the team. Employee reward and recognition is a straightforward way to provide positive feedback and promote both individual development and large scale growth. Incorporating recognition into your company culture creates an environment of respect and is a powerful way to not just recruit but also engage and retain the best talent.

#### 7. Future Scope and Significance of Rewards and Recognition within the Purview of Employee Engagement in an Organization

How the organization recognizes and Rewards Good Performance can also strongly influence your ability to engage talented Workers. Recognition from a talented employee's manager makes the employee feel special – thereby fostering loyalty and commitment to the person's team and Company. In "**Employee Recognition and Reward**", business author and employee motivation expert Bob Nelson offers tips for delivering effective recognition. For instance, the sooner good performance is acknowledged, the more clearly the parent organization sends the message that you value that employee – and the more likely he or she will be able to repeat the desired performance.

**8. Limitations:**

The Research is based on qualitative data derived from Case Studies and implications of researches already conducted on the study areas. Therefore, inadequacy of numerical or Quantitative data in certain areas can be considered as the primary limitation of the research. A secondary limitation of the research is Time constraint.

**9. Conclusion:**

On exploring the various facets of Rewards in an Organization, its significance and impact on the other functions of Human Resource Management specifically the integral function of Employee Engagement in Today's Modern Scenario, it is evident that Rewards have a great Impact on the Intensity of Engagement of Employees in the Organization. Examining the relationship between Reward Management and Employee Engagement has brought us to the understanding that it is not just about hiring competent workforce in the Organization but also about the kind of Engagement fueled with competitive reward system that makes a huge difference.

Talent that is recognized, appreciated and rewarded in an equitable manner increases the rate of Engagement and Productivity in the Organization. The Organizational reward Philosophy and Components plays a major role to enhance productivity, mitigate employee attrition by elevating the employee engagement levels in the Organization and also motivating employees to develop dynamic skills.

It is very crucial to strike a sense of Balance between what employees contribute to an organization and what they get back in return in the form of rewards and Recognition. This is crucially fundamental to sustaining the extra efforts that come with an engaged workforce. This means that Reward programs are an extremely crucial component of effective employee engagement strategies.

In the high workload organizations of the modern scenario, it is a common practice wherein employees are being asked to do more with less. Usually, employees are sharply aware of their respective contribution and are highly influenced by reward programs and policies.

Employees are inclined to increase the pressure on their organizations to balance returns with inputs.

Ergo, it is more important than ever that reward practices and programs should be targeted towards recognizing employee efforts and contributions adequately which can be used as the best employee engagement measure for enhanced organizational Productivity.

**References:**

- 1) Kohn, A (1993) Why incentive plans cannot work, Harvard Business Review, September–October, pp 54–63
- 2) Lawler, E E (1990) Strategic Pay, Jossey-Bass, San Francisco
- 3) Lawler, E E (1993) Who uses skill-based pay, and why, Compensation & Benefits Review, March–April, pp 22–26
- 4) Schein, E H (1985) Organizational Culture and Leadership, Jossey-Bass, San Francisco
- 5) {Lawler, E E (1993) Who uses skill-based pay, and why, Compensation & Benefits Review, March–April, pp 34–42
- 6) Brown, D (2001) Reward Strategies: from Intent to Impact, CIPD, London
- 7) Organizational Rewards System (Chiang and Birch, 2008)
- 8) Armstrong, M. (2006). A Handbook of Human Resource Management (10th ed.). James Guthrie (Guthrie, J P (2007) Remuneration: pay effects at work, in Oxford Handbook of Human Resource Management, ed P Boxall, J Purcell and P Wright, Oxford University Press, Oxford).
- 9) Closing the Engagement Gap: A Road Map for Driving Superior Business Performance Towers Perrin Global Workforce Study 2007-2008 Mujtaba & Shuaib, 2010).
- 10) DeConinck and Stilwell, 2004; Hundley and Kim, 1997; Kim et al., 1990
- 11) Deeprouse, D. (1994). *How to recognize & reward employees*. New York: American Management Association
- 12) Sprecher, S. (1999). Journal of Personality and Social Psychology.
- 13) Chiang, F. F. T. and Birtch, T. A., 2008. Achieving task and extra-task-related behaviors: a case of gender and position differences in the perceived role of rewards in the hotel industry.

- International Journal of Hospitality Management, 27, pp. 491-503.
- 14) Mossbarger, M. and Eddington, J., 2003. Methods for motivating employees.
- 15) Blunt, P., & Jones, M. L. (1992). Managing Organizations in Africa. New York: Walter de Gruyter
- 16) Taleo Research (2009). Alignment Drives Employee Engagement and Productivity
- 17) Haidt, M & Jamie, S 2009, 'Employee engagement: maximizing organizational performance'.
- 18) Schaufeli, W. B., & Bakker, A. B. (2001). Work and well-being: towards a positive approach in Occupational Health Psychology]. Gedrag & Organisation, 14, 229–253
- 19) Harter, J. K., Schmidt, F. L., Killham, E. A. & Agrawal, S., T. L. (2009). Q12® Meta-Analysis: The Relationship Between Engagement at Work and Organisational Outcomes.
- 20) Nahrgang, Morgeson & Hofman (2011), Safety at Work: A Meta-Analytic Investigation of the Link Between Job Demands, Job Resources, Burnout, Engagement, and Safety Outcomes.
- 21) Matthew P. Gonring (2008), Customer loyalty and employee engagement: an alignment for value.
- 22) Blau, P. (1964). Exchange and power in social life.

