

# **MANAGING REWARD STRATEGY TO ENHANCE EMPLOYEE PERFORMANCE, RETENTION AND PRODUCTIVITY IN ORGANIZATIONS: A GENERAL OVERVIEW**

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## **Abstract**

In a globalized economy with millions of businesses vying for talented workforce, an organization must be able to motivate and properly compensate employees or risk their being poached by their competitors. This prompts the need for this study to examine the application of reward strategy in organizations with a view to ascertaining its efficacy on employees' performance, retention and productivity. The study is essentially library research. From the study, two types of organizational rewards were identified: financial and non-financial rewards. The paper verified the positive correlation between rewards and employees' performance, retention and productivity in the organization. However, the study observed that if organizational rewards plan is perceived to be inequitable and bias, it may de-motivate employees in the organization. Based on this, the study proposes: that rewards system in the organization should be designed with articulated strategies that should be embedded in the organization's culture; management should identify employees' needs/preferences in developing organizations' compensation structure. The application of these notions when matched with a good managerial disposition will enable organizations to formulate effective, sustainable strategies that will address equitable and adequate reward for employees, which in turn will enhance employees' performance, retention and productivity in the organization.

**Keywords:** Rewards, Employee, Performance, Retention, Productivity, Organization

## **Introduction**

In organizational discourse, the management of reward strategy that guarantees organizational well-being had often times been emphasized. This is because the most fundamental concerns of reward management is how it can assist to motivate employees to achieve a high level of performance, ensure their retention and boost production in the organization (Armstrong and Stephen, 2005).

The term 'reward' is discussed frequently in organizational literature as something that an organization offers to the employees in response to their contributions and performance and also something which is desired by the employees (Agarwal, 1998). Armstrong (2012) averred that reward is something that recognizes a person's contribution. He argued that people are rewarded financially for the job they are in (basic pay) and, often for the levels of their performance, competence or skill (contingent or variable pay), or for their services in the job (service-related pay). Krietner and Kinicki (2007) concur to these views that reward is compensation for doing work well assigned to an employee which can come in the form of both financial and non-financial incentives.

Armstrong and Stephens (2005) see reward strategy as management declaration of intent which expresses what the organization wants to accomplish in the longer term to develop and implement reward policies, practices and processes that will enhance the achievement of its business goals and meet the needs of its stakeholders. They argued that reward strategy provides a sense of purpose and direction and a framework for developing reward policies, practices and policies, which are based on understanding of the needs of the organization and its employees and how they can best be satisfied.

The purpose of reward strategy is to develop policies and practices which will attract, retain and motivate high quality people to the organization (Armstrong, 2005), and support the achievement of business goals and provide fair and equitable pay for employees in the organization (Armstrong, 2012). This is because employees want their performance to be appreciated and providing appropriate rewards and benefits package is an effective medium not only to achieve organizational goals but also to ensure the continuation of relationship with talented employees in the organization (Sabo, 2011). Silbert (2005) concludes that it is important that rewards have a lasting impression on the employee and it will continue to substantiate the employees' perception that they are valued in the organization. This assertion is amplified by the views of Olakunle and Ehi (2008), that if reward plan is perceived to be unfair and unrealistic, it may pose a negative effect as a motivator.

The above discourse invariably suggests that organizational reward strategies must be targeted, periodically examined and sustaining to achieve the individual and corporate needs. It is against this backdrop, that this paper examines organizations' reward strategy in relation to its effectiveness in enhancing employee performance, retention and productivity in the organization.

To achieve the foregoing objective, the paper discusses the following:

- An overview of reward strategy;
- Types of organizational reward: strengths and weaknesses; and
- Impact of reward and incentives on employees' performance, retention and productivity in organization.

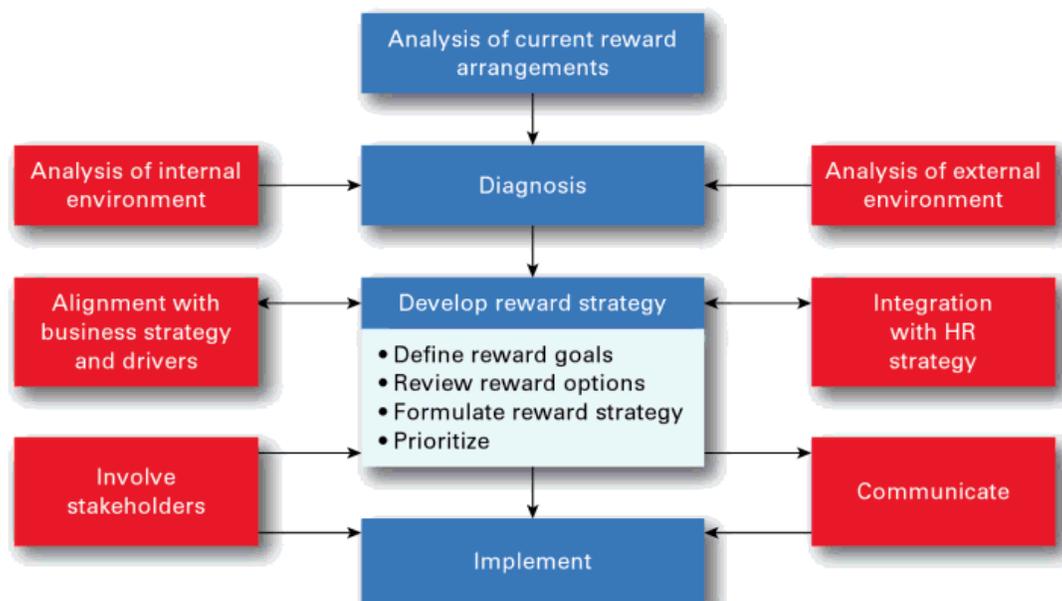
### **Literature Review: Rewards and Incentives**

The concepts of rewards and incentives are interchangeably used by researchers. Ezigbo and Court (2011) argued that the concepts are quite interrelated, overlapping and complementary in the context of employee motivation. Reward is the compensation

for doing work well given to an employee in the form of both financial and non-financial incentives (Ezigbo and Court, 2011). This definition is in consonance with the position of Kreitner (2004) that reward is the material and psychological payoffs given to an employee as recognition for good contribution and for performing tasks well in the workplace. In the views of Molhotra, Budhwar and Prowse (2007), organizational reward means all the benefits which include financial and non-financial, that an employee receives through the employment relationship with an organization.

Williamson, Burnett and Bartol (2009) categorizes rewards into three main types that individuals seek from their organization; extrinsic, intrinsic and social rewards. The extrinsic rewards are the physical benefits provided by the organization such as pay (wages and salary), fringe benefits, promotion prospects, recognition, status symbols and praise. The intrinsic rewards represent those rewards that are related directly to performing the job. They are self-granted and internally experienced payoffs. This includes a sense of accomplishment, self-esteem, autonomy, personal growth and self-actualization (Inyang and Enouh, 2008; Adrian, Margaret and Nuala, 2010). The social rewards arise from the interaction with other people on the job and may include having supportive relationship with supervisor and co-workers (Khawaja, Mazen, Anwar and Alamzeb, 2012).

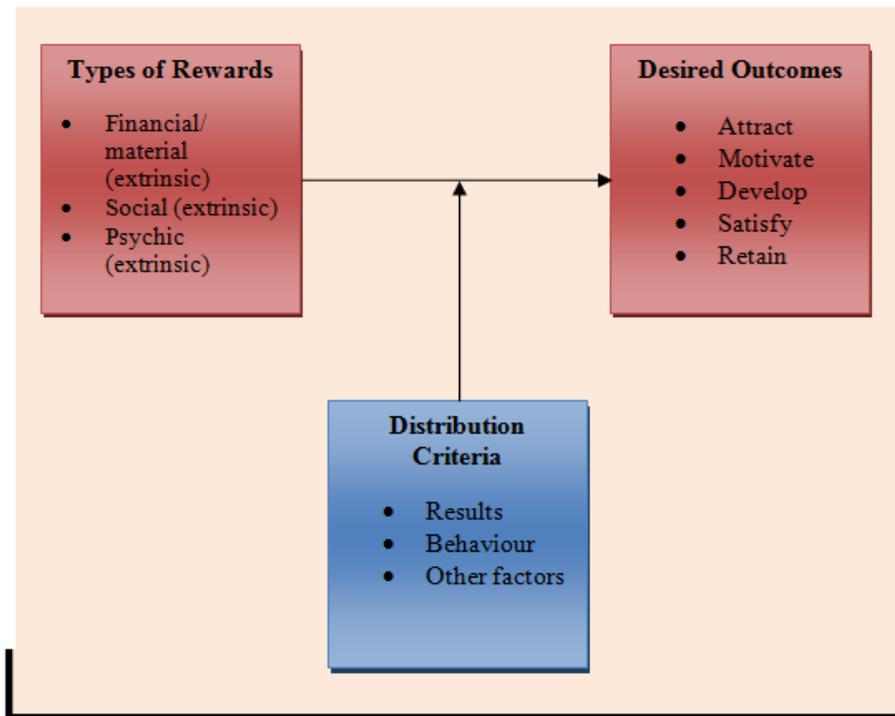
Armstrong (2012) posited that an effective reward strategy should follow the sequence as depicted in figure 1 below.



**Figure 1: Reward Strategy Development Framework**  
**Source:** Armstrong (2012: 683).

In the views of Taplin, Winterton and Winterton (2003), rewards provided by organizations have positive relationship with job and satisfaction and hence employee's improved performance and retention. Kreitner and Kinicki (2010) assert that a good

reward system attracts talented people; motivate, develop, satisfy and retain them once they have joined the organization. See figure 2 below – model of organizational reward systems.



**Figure 2: Model of Organizational Reward Systems**

**Source:** Kreitner and Kinicki (2010: 256).

In figure 2 above, kreitner and Kinicki (2010:256) also pointed out three general criteria for the distribution of rewards. These are as follows:

- performance: results from tangible outcomes such as individual, group, or organization performance; quantity and quality of performance;
- performance: actions and behaviours, such as teamwork, cooperation, risk taking, creativity; and
- non-performance considerations. Customary or contractual, where the type of job, nature of the work, equity, tenure, level in hierarchy, and so forth are rewarded (Pearce and Peters, 1985).

Kreitner and Kinicki (2010) further stress that a good reward system should foster personal growth and development and keep talented employees from leaving the organization. Luthans (2002) posits that organizations provide rewards to their employees in order to motivate their performance and encourage their loyalty and retention. This conforms to the assertion by Nadia, Syed and Humera (2011) that employees will give their maximum when they have a feeling or trust that their efforts will be rewarded by the organization.

Incentive on the other hand, is an act or promise for greater action. It is also a stimulus to a greater action. It means additional remuneration or benefit given to an employee in recognition of achievement or better performance. Incentives provide a spur or zeal to the employee for better performance (Ola, 2011). Smith (2000) explained that incentives are payment schemes which represent an attempt to influence the behaviour and work performance of employees through the provision of cash or cash equivalent reward additional to basic remuneration. In the view of Smith, the incentives are provided to employees with the intention to exert influence or induce the work behaviour of the workforce. He stresses that incentives are provided to employees as reward beside the basic remuneration.

The synthesis of the above literature holds that reward is complementary payment offered to employees for performing exceedingly well, and which could also be explored as a consequential management strategy to moderate employees' conduct in the workforce. Incentives are operational stimulus aimed at energizing employees for improved performance in the organization. This suggests the need for organizations to articulate a well reward system strategy that will act as a catalyst to employee's performance, retention and the enhancement of productivity. The efficacy of this measure could be achieved if matched with a good managerial disposition.

### **Types of Organizational Rewards: Strengths and Weaknesses**

Olakunle and Ehi (2008) affirm that organizational reward system is the major nexus in the exchange process between employees and the organization. They pointed out that this is because employees contribute their time, effort, knowledge, skills, creativity and energy to the accomplishment of the success of the organization. The organization, in turn, rewards the employees with both financial and non-financial compensation. We shall examine the financial and non-financial rewards system offered by organizations below.

### **Financial Rewards**

**(a) Base Pay** Base pay is often referred to as payment by time (Adrian et al., 2010). It is a payment made to an individual employee for a specified amount of time of work and can be expressed as hourly, weekly, monthly rate or on annual basis (Luthans, 2002; Armstrong and Stephens, 2005; Adrian et al., 2010). Luthans (2002) contends that base pay is often determined by market conditions. He added that if base pay is not in line with the market rate, organizations may find it difficult to have and retain employees in the organization. He further pointed out that one of the downside with base pay compensation is that they tend to be competitive at the entry level and are often less competitive thereafter.

**(b) Merit-Based Pay** This is a merit pay system that organizations employ to give annual salary increases to their employees (Luthans, 2002). Adrian et al., (2010) posited that merit-based pay has become a more common way of incentivizing employees who do not necessarily have targets to meet or who produce quantities of work which cannot be counted. Luthans (2002) contends that merit pay is typically tied to some

predetermined criteria. For instance, an organization may give its employees a cost-of-living allowance and then allocate additional bonus to those employees considered meritorious. He noted that merit pay can be in form of flat sum or a percentage of the employee's base salary or in most cases organization use a combination of the two. He added that this approach ensures that those who are making lower salaries get larger percentage increases, whereas those earning higher salaries receive a flat merit rise.

Rao (2010) argued that rewarding the best performers with the largest pay is claimed to be a powerful motivator. This is because to him, performance that is rewarded is likely to be repeated, and employees tend to do things that will be rewarded, considering the fact that individuals are goal - oriented and financial rewards can shape an individual's goals over time. However, merit raises may not always achieve their intended purpose. Rao (2010:405) listed the following as faults associated with merit-based pay: tying pay to goals may force people to be narrow-minded, they may focus on goals that are measurable, easy to achieve and avoid the more important goals, it is difficult to define and measure performance objectively, employees fail to draw the connection between pay and performance, every supervisor may not be competent evaluator, there may be lack of honesty and cooperation between management and employees. In this stance, workplace politics may come to play a major role in recognizing meritorious performers, and the size of the merit award has little on performance.

Luthans (2002:150) identified two major problems of the merit base pay to include: that the criteria for determining merit are often vague because the organization does not clearly spell out the conditions for earning this pay, and that merit pay can end up being "catch up pay". For example, everyone may be given a two percent across-the-board raise and then those whose pay is extremely low are given merit to get them close to the market values.

**(c) Pay for Performance** Pay for performance is also known as variable pay and incentive pay (Kreitner and Kinicki, 2010). Luthans (2002) argued that organizations designed pay for performance because of the problems associated with linking merit pay with performance. Pay for performance is a money incentives term linking some portion of the paycheck directly to results or accomplishments (Kreitner and Kinicki, 2010). Adrian et al., (2010) posit that variable pay is based on the assumption that those who are motivated by money will work harder as they will get paid more. Pay for performance is simply an extra compensation offered by an organization to its employees, that is, above their basic wages and salaries (Kreitner and Kirincki, 2010).

Rao (2010) argued that the logic behind pay for performance is that organization wants every individual employee to think of performance in the same perception with the organization. He posits that the employee has to compete, get ahead, deliver results and fight for the winning slot on a daily basis. In such a scenario, the employer-employee relationship assumes a mercenary dimension, eliminating poor performers at every stage. Variable pay can come in form of individual incentives; offered to reward the effort and performance of individuals, group incentives; group or team incentives plans reward team members with an incentives when agreed upon standards are met or

exceeded, and organization wide incentives; organization incentives reward people for the performance of the entire organization (such as profit sharing, employee stock option. Wright (2004:135) identified different types of variable pay in the following ways:

- sales commission or sales incentives designed to increase the performance of the sales force. In this plan, a sales representative receives a percentage of the value of the sale made. He receives no compensation, if no sales are made (Rao, 2010). This implies that the sales persons must strive to sell in order to earn. This system has been associated with some drawbacks. Rao (2010) identified these drawbacks as follows: the emphasis here is always on sales volume rather than on organizational profits. Sales representatives tend to concentrate more on generating sales volumes and on high-value items neglecting other important duties like serving small accounts; cultivating dedicated customers, and pushing hard-sell items, earning tend to fluctuate widely between good and poor periods of business; wide variations in income would occur as sales people compete with other and this could ultimately lead to negative feelings of bitterness; jealousy and anguish among themselves; and sales people may be tempted to grant price concessions in order to push up sales.
- bonus payments related to output of a team or business unit;
- executive incentives that may be profit-related to the success of the business unit; and
- piecework rate is where individual output is measured and paid accordingly. There are three types of piece rate system: ***Straight piece rate*** - Here payment is made on the basis of a fixed amount per fixed units produced without regard to the time taken, ***Piece rate with guaranteed time rate*** - In this method, workers are paid minimum wages on the basis of time rates, and ***Differential piece rate*** - Under this scheme, the rate per piece increases, as the output level is increased. This suggests that, there is more than one-piece rate system (Rao, 2010). Rao (2010) posits that under this piece rate system, the workers are paid at a stipulated rate per piece or unit of output. He noted that in this system, speed is the basis of payment, instead of time. He however, identified the merits and demerits of the piece rate system. Rao (2010) stated the merits of piece rate system as follows:

**Merits of Piece Rate System** It provides encouragement for higher production by rewarding efficient workers in a suitable way; in their bid to earn more, workers will try to adopt better and more efficient methods and thereby increase production. As a result, the general dexterity and skill of the workers are enhanced. Since wage rate is fixed per unit, it is easy to prepare quotations, estimate and budgets. Idle time will be reduced to minimum, as workers are not paid for wasted time on the job. Workers take great care in maintaining machines and tools properly because their breakdown would cause work

stoppage and reduce their earning; and cost of supervision is less, as the workers do not require supervisors to oversee their efforts. Higher earning for increased production automatically compels working with zeal and enthusiasm.

**Demerits of Piece Rate System** Rao (2010) outlined the following as demerits of piece rate system: this is no guarantee of minimum remuneration made under the system. This implies that if there is any delay in employees' performance of his job, the affected employee would have to go without any pay, beginners and average workers will not be able to earn reasonable wages because of their inability to complete the work as fast as their experienced counterparts do, quantity will be over-emphasized at the cost of quality unless close supervision is maintained. Piece rates are unsuitable in circumstances where work is intermittent and job cannot be standardized, since wages are linked with output, there will be a tendency among workers to labour hard and overstrain themselves in order to record higher output to get increased wages thereof. This in turn will likely affect the employees' health, since capacities differ widely, their earnings as per piece-rates also vary widely thereby causing dissatisfaction among the employees in the organization. Trade unions very often oppose this system on ethical grounds that it will lead to rivalry among workers and destroy fraternal feeling among employees.

**(d) Payment by Result** This is otherwise referred to as performance-related pay (PRP). It is the form of payment by results which usually makes up a part of the employees' pay. Here, the actual percentage of salary which is related to performance varies between organizations and the types of jobs, but usually those jobs which focus on output rather than input have a large part of their salary based on performance related pay. For instance, an employee may be paid a set rate for completing a job, but if the job is completed in a reduced time or more is produced, a bonus payment is given to the employee. For sales staff, a bonus payment may be received for exceeding their target (Adrian et al., 2010).

**(f) Employee Benefits** Employee benefits consist of arrangements made by employers for their employees which enhance the latter's well-being. They are provided in addition to pay and form important parts of the total rewards package. As part of total remuneration, they may be deferred or contingent (Armstrong and Stephens, 2005). Adrian et al. (2010) share this view that employee benefits constitute those aspects of reward offered by the employer to the employee in addition to their basic pay. These basic make up the remuneration package of an employee and in some cases can be up to a third of the basic pay of each employee in the organization. Adrian et al (2010) further explained that the types of benefits provided by organizations depend on the cost and the relative value to the employees. They noted that an attractive benefits package is a propeller to attract and retain employees to the organization. They noted additionally, that organizations can compete with each other on basic pay but it is often the benefits package which distinguishes the organization as more or less attractive to their competitors. Organizations which need to compete for the best employees often have quite complex benefits package offering rewards which are particularly valued by the

type of employees they wish to attract to the organization. Armstrong and Stephens (2005) listed the types of employee benefits to include: **Personal security** This includes: Health care- the provision through medical insurance of private health care to cover the cost of private hospital treatment, making periodical health screening available; Insurance cover- for death in service (if not provided for in a pension scheme), personal accident and business travel; Sick pay- providing full pay for a given period of sickness and a proportion of pay (typically half-pay for a further period). Sick pay entitlement is usually service related; Redundancy pay- additions can be made to the statutory redundancy pay, including extra notice compensation, extra service-related payments and ex-gratia payment; and career counseling- this can be provided by specialist consultants to employees who have been made redundant, **Financial assistance** This takes the forms of: company loans - interest-free modest loans, or low interest on more substantial loans which are usually earmarked for specific purposes such as home improvements; season ticket loans- interest-free loans for annual season tickets; mortgage assistance- subsidized interest payments on mortgages up to a given price threshold. This is a benefit most likely to be provided by financial services organizations; relocation packages- for staff who are being relocated by the organization or recruitment from elsewhere, the costs of removal and legal/ estate agent's fees may be refunded, **Personal needs** This includes maternity and paternity leave and pay above the statutory minimum; leave for personal reasons; childcare through workplace nurseries or vouchers; pre-retirement counseling; personal counseling through employee assistance programmes; sports and social facilities; company discounts- employees can buy the products or services offered by the company at a reduced price; and retail vouchers to buy goods at chain stores, **Flexible Benefits** These are schemes which allow employees to choose their benefits packages and sometimes vary their pay, to suit their personal requirements. In most schemes, employees can keep their existing salary and are given a benefit allowance from which they can buy their benefits (Adrian et al., 2010). Adrian et al., (2010) stress that this type of benefits system is more costly and time consuming to set up and administer, and does not allow employees to tailor their benefits to their own needs. **Voluntary Benefits** Unlike flexible benefits where the cost of the benefits is borne by the employer, with voluntary benefits, the cost of the benefits is paid for by the employees (Adrian et al., 2010). Adrian et al., (2010) noted that the advantages of offering employee voluntary benefits are due to the size of the organization they are often able to negotiate discounted rates. They stated that some benefits can be paid for directly out of an employee's salary and by doing so are tax-exempt. They further explained that the opportunity to offer voluntary benefits to employees can contribute to the overall package of reward for an employee and by doing so can enhance their image as an employee of choice. Adrian et al., (2010) listed types of voluntary benefits to include the following: health benefits such as discounted dental care and private medical insurance; in most cases, medical benefits are extended to employee family members and to the retired employees and their family members (Rao, 2010), financial benefits such as voluntary contributions to pension schemes or discounted holiday insurance, and leisure/lifestyle benefits such as offers on gym membership, holiday offers,

discount vouchers for restaurants, childcare vouchers and discounted shopping (CIPD, 2009).

The use of financial rewards especially contingent pay has attracted divergent feelings from those who support and those who oppose them. Armstrong (2012) expatiated on these arguments for and against financial rewards.

### **Arguments for Financial Rewards**

It is argued that those who contribute more in the organization should be paid more. Thus, it holds that it is proper to recognize achievement with financial reward (Armstrong, 2012). Armstrong (2012) asserts that this is in consonance with the principle of distributive justice which emphasized that the rewards should be provided equitably, and does not require them to be equal except when the value of contribution is equal. He explained that financial rewards can also be used to high-light key performance areas, and also indicate the behaviours that are valued and generally to emphasize the relevance of high performance. This implies that financial rewards carry social implication, because the salary level provides an indication of the employee's relative position of power and status within and outside the organization.

### **Arguments against Financial Rewards**

Armstrong (2012:369) pointed out the arguments against financial rewards as follows: the extent to which contingent pay schemes motivate is questionable - the amounts available for distribution are usually so small that they cannot act as incentive, the requirements for success are exacting and difficult to achieve, money by itself will not result in sustained motivation: intrinsic motivation provided by the work itself goes deeper and lasts longer, people react in widely different ways to any form of motivation - it cannot be assumed that money will motivate all people equally yet that is the premise on which contingent pay schemes are based, financial rewards may possibly motivate those who receive them but they can de-motivate those that do not, and the numbers who are de-motivated could be much higher than those who are motivated, contingent pay schemes can create more dissatisfaction than satisfaction if they are perceived to be unfair, inadequate or badly managed, employees can be suspicious of schemes because they fear that performance bars will be continuously raised; a scheme may therefore only operate successfully for a limited period, schemes depend on the existence of accurate and reliable methods of measuring performance, contribution, competence, or skill, which might not exist, individuals are encouraged to emphasize only those aspects of performance that are rewarded, contingent pay decisions depend on the judgment of managers which, in the absence of reliable criteria, can be partial, prejudiced, inconsistent or ill-informed, the concept of contingent pay is based on the assumption that performance is completely under the control of individuals when in fact it is affected by the system which they work for; and contingent pay, especially performance-related pay, can militate against quality and teamwork.

### **Non-Financial Rewards**

Non-financial rewards are considered as those rewards offered by organizations that do not involve any direct financial payments, and often arise from work itself (Armstrong and Stephens, 2005). Non-financial rewards incorporate the notion of relational rewards, which are intangible rewards concerned with the work environment (Armstrong, 2012). These rewards may include: achievement, autonomy, recognition, scope to use and develop skills, training, career development opportunities and high quality leadership (Armstrong and Stephens, 2005; Adrian et al., 2010; Armstrong, 2012).

The whole essence of non-financial rewards is that it has been argued that money will motivate some of the people all the time and, perhaps, all of the people some of the time. But it cannot be solely relied on to motivate all of the people all the time, hence money has to be reinforced by non-financial rewards, especially those that provide intrinsic motivation (Armstrong, 2012). This is a pointer for organization to blend their reward strategies in line with the organizational and employees' needs.

### **Impact of Rewards and Incentives on Employee Performance, Retention and Productivity in Organizations**

In this highly competitive business environment, employee's performance and retention are major concerns for many organizations that must strive in the global dynamic market. The emphasis is that employee retention is one of the primary measures of the health of the organizations (Nwokocha, 2014). This is because there is a significant economic impact on the organization losing any critical employee, especially given the knowledge that is lost with the employee's departure. This is the knowledge that is innovative and specialized and which is used to meet the needs and expectations of the customers.

John and Darry (2005) posit that it is costly to replace personnel, and often the individuals who leave take proprietary knowledge that is impossible to replace. This necessitates the need to devise ways to lure employees to stay in the organization. It has been argued by Ezigbo and Court (2011) that organizational performance is a complex phenomenon that is largely affected by the ability and motivation of the workforce in the organization. They explained that in this era of global hyper competitiveness in the business world, rewards are fundamental imperatives to derive maximum employee inputs, retention, commitment from employees and industrial harmony between the workforce and the organization.

Scholars have argued that skilled employees who have translated their skills into value for the organization, desired to be rewarded for their skills and performance. They added that skilled employees also want competitive pay as a fundamental element and want growth/development and career opportunities (Frincke, 2006; O'Neal and Gebauer 2006; Zingheim and Schuster 2007). All these propel employees for improved performance, retention and enhance organizational productivity.

According to Burke and Cooper (2004) cited in Nwokocha (2014: 86):  
*when organizations value and reward people, those people are committed to performing well. As a result, the organization*

*accomplishes more and it can reward employees more and attract and retain more talented employees. This leads to even higher organizational performance.*

The importance of rewards in organization has been amplified by Daniel (2013). He stated that the implementation of rewards and recognition help an organization in the pursuit of strategic and operational goals. He stressed that in a global economy, with millions of businesses vying for customers, an organization must be able to motivate and properly compensate employees or risk falling behind their competitors or worse, have their employees with knowledge of the organization leave for their competitors. Sims (2002) anchoring on expectancy theory affirms that employees expect and need to be rewarded according to the work they do, and will help them to develop the capability, help them to work up a higher level so that they can be better rewarded. The expectancy theory argued that decisions about which activities to engage in are based on the combination of three sets of beliefs: expectancy, instrumentality and valence. The expectancy is concerned with perceived relationship between the amount of effort an employee puts in and the resulting outcome. Instrumentality refers to the extent to which the outcomes of the employees' performance, if noticed, results in a particular consequence. Valence implies the extent to which an employee values a particular consequence (Ezigbo and Court, 2011). Aamodt (2007) explained that the implication of this theory to employees' motivation is that if an employee believes that no matter how hard he works, he will never reach the necessary level of performance, then his motivation will probably be low in respect of expectancy. For instrumentality, the employee will be motivated only if his behaviour results in some specific consequence. If he works extra hour, he expects to be rewarded, while for valence, if an employee is rewarded, the reward must be something he values.

Scholars have argued that rewards help to motivate and retain competent employees for performance (Okon, 1998; Bamigboye and Aderibigbe, 2000; Jerez-Gomez, Lespedes-Lorente and Valle-Cabrera, 2005). This underscores the views of Beer and Cannon (2004) and Gerhart and Rynes (2003) that rewards, particularly money, could be linked to desired behaviour and performance outcomes to improve effectiveness. Gratton (2004) corroborated the views of Herhart and Rynes that motivation of employees is determined by both monetary and non-monetary factors.

In the contribution of Randhawa (2008) monetary and non-monetary rewards are provided on organizational setting with a view to motivating and influencing individuals, team and organizational behaviour for the achievement of strategic objectives and performance of organization. Wang (2004) explained that in any organization, rewards play an important role in building and sustaining the commitment among employees that ensure a high standard of performance and workforce constancy. Khawaja et al., (2012) contend that employees are certainly closer to their organizations and perform better jobs when they receive healthier reward and recognition in their organizations. They further stress that rewards increase the level of efficiency and performance of the employees on their jobs and the result thereof increase the success of the organization. Employees want their performance to be appreciated and by

offering them appropriate rewards and benefit packages is an effective way not only to achieve organizational goals but also to secure the continuation of the relationship with talented employees (Saba, 2011).

Nadia et al., (2011) also lent credence to this argument that intangible or psychological rewards, such as appreciation and recognition play a vital role in motivating an employee and increasing his performance in the organization. These suggest that rewards and incentives offered to employees inspire them to efficient performance in the organization. Andrew and Kent (2007) state that the level of commitment of employee is based on the system of rewards and recognition applied in the organization. This is because the psychological perception of employees' compensation in workplace is a contributory factor towards their retention (Memoon, Kiran, and Muhammad, 2013).

The combination of monetary and non-monetary incentives that is offered with the right skills and enabling environment will spur employees to a higher performance and encourage their retention in the organization (Nwokocha, 2014). This signified that rewards and incentives create job satisfaction since they fulfill the basic needs as well as help individual employee to attain the higher level of goals. Ali and Ahmed (2009) assert that there is a substantial affiliation between reward and recognition, and similarly in employee motivation and job satisfaction. Kirviniemi, Snyder and Omoto (2002) argued that job satisfaction of the employees increase by the rewards they receive from the organization. Milne (2007) supports this position that rewards with their aftermath relationship were expected to establish on satisfaction and its accompanying effects to the employee in their organization.

Zaini, Nilufar and Syed (2009) established a linkage between employee job satisfaction and reward provided by organizations. He contends that employee job satisfaction is associated with money compensation, such as pay, promotion and bonus. A study conducted by the Institute for Employment Studies (Bevan, 1997) cited in De Vos, Annelies and Dirk (2006) reveals that only ten percent of employees who had left their employers gave dissatisfaction with pay as the main reason for leaving the organizations. Cappelli (2001) echoes this assertion that considering trend towards benchmarking, it is increasingly difficult for organizations to set themselves apart from their competitors by means of remuneration, which reduces the impact of financial reward on employee retention. This suggests the relevance of financial rewards in retaining employees in the organization.

In his contribution, Armstrong (2006) posits that financial rewards are defined as indirect motivators that enhance employees' financial well being as they provide tangible means of recognizing achievement. Financial rewards motivate employees in doing their jobs better than before and with less supervision, especially when profits are shared to employees hence improving their performance and retention in the organization (Charles, 2012). Charles stresses further that extrinsic reward attracts and retains competent performers who execute their duties as expected hence boosting their performance. Though, many studies have shown financial rewards to be a poor motivating factor, scholars still assert that it still remains a tactics used by many organizations to commit their employees to greater performance and to remain with the

organization by means of remuneration packages (Cappelli, 2001; Mitchel, Holton and Lee, 2001). In consonance with this assertion, a study by Horwiz, Heng and Quazi (2003) indicates that the most popular retention strategies reported by Human resource managers of knowledge firms still pointed to compensation.

Luthans (2002) asserts that using monetary benefit as organizational reward is a vital part of organization's reward system that helps to attract, maintain, and retain outstanding employees in the organization. Luthans anchored his assertion on efficiency wage theory, which holds that organizations can save money and become more productive if they pay higher wages and better benefits because they are able to hire and leverage the best talent. This conforms to the views of Memoona et al., (2013) that intrinsic and extrinsic rewards satisfy and motivate employees and help in retaining them within the organization and this leads to employees' optimum performance. In a similar vein, Nadia et al., (2011) posit that an effective reward system can retain employees in the organization, but an ineffective reward system leads them to higher turnover.

Shoaib, Noor, Tirmizi and Bashir (2009) explained that employee rewards are very important since they have lasting impression on the employees and continue to substantiate the employees' perception of their value to the organization they work with. They further state that employees judge the quality of their job in the intrinsic satisfaction and personal reward they earn from their work using intrinsic rewards to increase employee commitment and retention is achievable in organization (Daisy, Stephen and Robert, 2013).

The application of effective rewards system in organization must come with defined strategies. This is because when appropriate reward strategies are understood and embedded in the organization's culture, productive employees will be motivated to remain in the organization (Shechtman, 2008). This underpins the views of Memon et al., (2010) that organizations that put in place practices like effective and equitable compensation structure, appropriate promotional scales, and enhanced development and training opportunities, will motivate their employees to stay. Reward is the basic element which indicates how much employees gain by dedicating their time and efforts towards the achievement of organizational objectives. Therefore, management have the responsibility of designing an attractive reward package to attract and retain valuable employees to the organization (Shechtman, 2008). Thus, it is therefore, suggested that it is important for management to know the value employees place in their reward systems and to formulate sustainable strategies that address equitable and adequate reward for their employees (Shoaib et al., 2009). This is pertinent because any reward system which is perceived as unfair will not be effective to drive employees in the organization; hence it will de-motivate employees and leave them disillusioned.

Inferring from the above literature which has encapsulated the impact of rewards and incentives, we conclude that rewards and incentives are of immense importance to the individual employee and organizational effectiveness. This is because human capital is now acknowledged as being central to knowledge management and thus desire to be treated well in order to sustain, retain and leverage it. The use of rewards and incentives affords organizations not only to retain their core employees and avoid the associated

cost of employee turnover, but to retain employee from getting poached. The importance of rewards and incentives also creates and sustains a competitive advantage within the global economy that is now interdependent and interrelated.

### **Conclusion**

The study mirrored on managing reward strategy in organizations with the aim to verifying its efficacy on employees' performance, retention and the enhancement of productivity in the organizations. The paper identified two types of organizational rewards: financial and non- financial rewards, and argued that the fundamental concerns of reward management in an organization is how it can leverage on employees to perform better at workplace, ensure retention and enhance productivity. The paper affirms further that rewards offered by organizations have positive relationship with job and satisfaction. As such, this propels employees' performance, retention and the attainment of business goals. The study however, observed that if organizational reward strategy is perceived to be unfair and unrealistic, it will de-motivate employees.

### **Recommendations**

The study proposes that rewards system in the organization should be designed with articulated strategies that should be embedded in the organization's culture; and management should identify employees' needs/preferences in developing their reward systems. This will help in the formulation of sustainable organizational reward policies that will spur employee's performance, retention and productivity in the organizations.

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