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IMPACT OF REWARD SYSTEM ON EMPLOYEE COMMITMENT

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Abstract

Commitment of employees is an incentive to the organization since a longer stay at the same organization helps the employee understand organizational goals . A well-designed system for rewarding labour greatly has a bearing on the output of employees and therefore impacts on the commitment of the organization. The study investigated the relationship between reward management and employee commitment. The reward system as the independent variable indicators included; Extrinsic rewards which was measured in terms of Base Salary, Benefits and Promotion while the second dimension will be Intrinsic Rewards and was measured in terms of Employee Recognition, Responsibility and Working Condition Whereas Employee Commitment was shown as the dependent variable. Correlation and Regression analysis was used in the study. The study observed that there is a direct and positive relationship between reward practices and employee commitment which means that the reward practices are directly proportional to employee commitment. This indicates that the change in reward necessarily results a change in the level of employee commitment. This shows that management of the concerned company can make use of different tactics, strategies, and policies to improve the level of performance of employees in the organization.

I .Introduction

This study will provide an insight into the meaning of reward systems as it pertains to the company and as it is required to be. A well-designed system for rewarding labour greatly has a bearing on the output of employees and therefore impacts on the commitment of the organization. Reward represents by far the most important and contentious element in the employment relationship, and is of equal interest to the employer and employee. To the employer, because it represents a significant part of his costs, it is increasingly important to his employee commitment and to competitiveness, and affects his ability to recruit and retain a quality labour force. To the employee it is fundamental to his standard of living and is a measure of the value of his services or commitment. The associated merits and demerits that accompany reward systems will be examined. It is implored that commitment of employees to an organization can be visible when employees become more committed to their assigned tasks, creative at their workplace, and very sincere with duty, (Clugston, 2013; Riketta, 2012). A lot of research has been conducted focusing on reward and employee Commitment as per (Miriam (2018); Teferi (2017); Paul (2021) but little has been done to vividly show the relationship between reward management and employee commitment. The results of this study would go a long way increasing awareness about the weaknesses in the implementation of this

system and the suggested way forward. It is thereby hoped that this study will contribute constructively towards increasing company as well as employees' understanding and acceptance of the impact of reward systems on employee commitment. This study covered the period from 2021- 2022.

II Review of Literature

Rewards are defined as awards offered to employees for contributing towards organizational goals. They will be looked at in both monetary and non-monetary terms. Reward is an important part of the feedback loop in performance management (Hartle, 1995). Extrinsic rewards are those external to the task of the job, such as pay, work conditions, fringe benefits, security, promotion, contract of service, and the work environment (Ajils, 1997). Benefits consist of arrangements made by employers for their employees enhance the latter's well-being (Armstrong, 2010). Promotion refers to opportunities that organizations offer for advancement and asserts that promotions create the opportunity for personal growth, increased levels of responsibility, and an increase in social standing (Robbins & Judge, 2013). Intrinsic rewards are those non-monetary awards given to employees to enhance employee commitment and performance. These rewards give an employee satisfaction derived from a job well done. Intrinsic rewards are defined as feelings of contentment that an employee finds for completion of a task because it brings a strong sense of meaning and responsibility. Intrinsic rewards may include recognition, job security, among others. Intrinsic rewards are inherent in the job itself and which the individual enjoys because of successfully completing the task of attaining his or her goal (Ajils, 1997). Recognition: are special awards for employee achievement, are less common and are associated with performance but usually operated separately and where many of the rewards are non-cash (Stredwick, 2015). Working conditions includes working hours, relationships with workers, and quantity of work and availability of resources (Armstrong, 2010).

The reward system role on employee commitment is explained by various theories including the Social Exchange Theory (Greenberg & Scott, 1996), Expectant Theory (Vroom, 1964), and Equity theory (Adams, 1963). Rewards is also defined as one of the valuable elements to motivate employees for contributing their best effort to generate innovative ideas that lead to better business functionality and further improve company performance both financial and Non-financial (Aktar, Sachu, & Ali, 2012).

Rewards are the positive reinforcements given by the organization. Rewards acts as effective motivators and help people to increase productivity and efficiency According to Mirkander (2010), cited in Oroc, Lopian and Pandowo (2014) Furtado et al (2012) state that it is worth stressing that reward systems are designed with the objectives of increasing organizational productivity and the process of rewarding the employees who have achieved the expected level of performance in the organization.

Kitoito (2014) explains that the systems of reward can be classified as intrinsic or extrinsic. Intrinsic reward systems are inherent in the job, in which the individual enjoys as a result of completing the task successfully to enable the employees to attain the organizational goals and their personal goals. Heneman (2013) observed the objective of reward management is to ensure reward practices are aligned with employee needs. According to Armstrong (2012), reward strategies base on objectives of the organization and what it wants to achieve. Extrinsic rewards include three dimensions such as basic pay, merit pay and performance bonus (Aktar et al, 2012). According to Price, (2011), employee commitment to the organization refers to the degree of involvement and attachment an employee has with organizational values and goals. It is the desire to stay in an organization if an employee has confidence in its principles and goals. Armstrong, (2012) states that commitment means allegiance and feelings of an employee to the organization. It signifies both behaviour and the feelings. Meyer and Herscovitch, (2001) continued to argue that commitments can include behavioural actions a committed employee may take in form of Discretionary behaviours. Njanja, (2013), noted that organizations also use contingency pay in rewarding employees who meet and exceed the set targets. Tsai, (2005) emphasized that monetary rewards when used should cater for expectation of individual employees in order to motivate and keep them committed. He also emphasized the concept of paying individuals depending on their performance which was identified as the most effective technique in maximizing the commitment of employees though its impact was noted to be short-lived. Torrington and associates (2009) in their study used the term non material rewards and concluded that these can increase job satisfaction for high performing employees.

III. Research Methodology

The model has included the expectancy theory of rewarding employees based on their needs and value and equity theory that is perceived as a fair and equitable reward system will bring increased employee commitment. The above conceptual framework showed reward system as the independent variable indicators included; Extrinsic rewards which was measured in terms of Base Pay/Salary, Benefits and Promotion while the second dimension will be Intrinsic Rewards and was measured in terms of Employee Recognition, Responsibility and Working Condition. Whereas Employee Commitment was shown as the dependent variable.

The conceptual framework indicated that good reward management results into better employee commitment while poor and unfair reward management results into poor employee commitment hence affecting the organization.

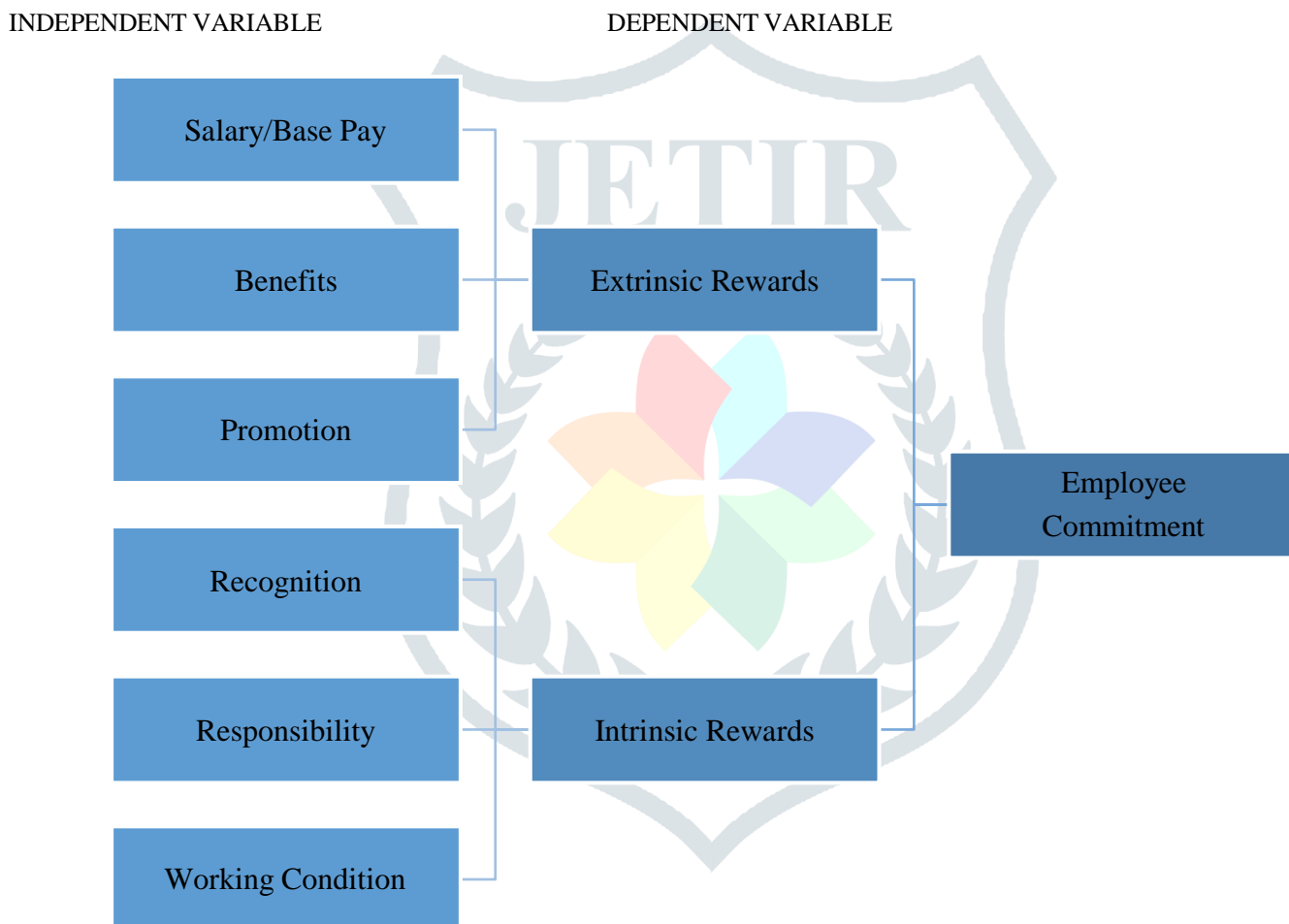


Figure 1. Conceptual Framework of the Impact of Rewards and Employees Commitment

For the study, employees working in an organization which is a structural engineering company at Chennai were interviewed and the questionnaire was asked to fill in the data. 180 respondents were interviewed and filled the questionnaire and out of that 104 was usable data. Convenience sampling method was used for selecting the samples. The pre-analysed questions which give the respondent pre-defined alternatives to choose from (Sekeran 2003).

Hypothesis of the Study

H1: Extrinsic rewards have a significant effect on employee commitment

H2: Intrinsic rewards have a significant effect on employee commitment

IV Data Analysis

To analyse the data obtained from the respondents both descriptive and inferential statistics were used. Accordingly, to assess the existing reward practice of the company descriptive statistics were employed. To examine the relationship between the independent and dependent variable of the study, Pearson correlation coefficient was used. And, to determine the extent to which the dimension of reward management practice influence employee's commitment, the researcher used regression analysis. A pilot reliability test has been conducted to assess whether or not the respondent understands the modified instrument.

Table 1: Correlations of Employee Commitment and Extrinsic Reward

Correlations		
	Dependent Variable	Independent Variable
Dependent Variable	Pearson Correlation	1
	Sig. (2-tailed)	.640**
	N	136
Extrinsic Reward	Pearson Correlation	.640**
	Sig. (2-tailed)	.000
	N	136

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

INTERPRETATION:

These study findings show a weak but positive correlation of (0.64) between extrinsic rewards and employee commitment. These findings were significant at ($P < 0.05$ level). Therefore, the earlier hypothesis which stated that "extrinsic rewards have a significant effect on employee commitment was accepted. Thus, extrinsic rewards have a significant effect with employee commitment at 64.0% and therefore a need to develop a reward system that also considers extrinsic rewards. Hence H1 is accepted

❖ REGRESSION

DEPENDENT VARIABLE (Employee Commitment) and INDEPENDENT VARIABLE (Extrinsic Reward)

Table 2: Regression of Employee Commitment and Extrinsic Reward

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.640 ^a	.410	.405	2.18089

a. Predictors: (Constant), Extrinsic Reward

INTERPRETATION:

In the table 2 above extrinsic rewards had R Square ($R^2 = 0.410$), which explains the degree to which a set of independent variables lead to variations in the dependent variable. This implies that extrinsic rewards which the independent variable is responsible for 41% variation in employee commitment (dependent variable) therefore the remaining 59% was contributed by intrinsic rewards and reward policies. Hence H2 is accepted.

DEPENDENT VARIABLE (Employee Commitment) and INDEPENDENT VARIABLE (Intrinsic Reward)

Intrinsic rewards have a significant relationship with Employee commitment .In verifying this hypothesis, a Pearson's correlation Co-efficient method was adopted in assessing the degree of the relationship depicted by Table 3 below gives Pearson's correlation Coefficient for the two variables.

Table 3: Correlations of Employee Commitment and Intrinsic Reward

Correlations		
	Dependent Variable	Independent Variable
Dependent Variable	Pearson Correlation	1
	Sig. (2-tailed)	.640**
	N	136
Intrinsic Reward	Pearson Correlation	.640**
	Sig. (2-tailed)	.000
	N	136

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

INTERPRETATION:

The study findings noted a strong correlation ($r=0.64$) between intrinsic rewards and employee commitment. These findings were significant at ($P<0.05$ level). Thus, the hypothesis which states that; "There is a significant relationship between intrinsic rewards and employee commitment" was accepted. Thus, intrinsic rewards have a significant influence, 64.0% on employee commitment. The implication of the findings was that intrinsic rewards have a significant causal effect on employee commitment. So, an improvement in intrinsic rewards causes a significant positive change in employee commitment.

REGRESSION

DEPENDENT VARIABLE (Employee Commitment) and INDEPENDENT VARIABLE (Intrinsic Reward)

Table 4: Regression of Employee Commitment and Intrinsic Reward

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.640 ^a	.410	.405	2.18089

a. Predictors: (Constant), Intrinsic Reward

INTERPRETATION:

From table 4 above intrinsic rewards had R Square ($R^2=0.410$), which explains the degree to which a set of independent variables lead to variations in the dependent variable. This implies that intrinsic rewards contributed (41.0%) towards variations in the dependent variable (employee commitment) so the remaining change of 59.0% in employee commitment was due to extrinsic rewards and reward policies.

DEPENDENT VARIABLE (Employee Commitment) and DIMENSIONS

Table 5

Independent Variable Dimensions	Dependent Variable	Pearson Correlation Value	Type of Correlation
Salary	Employee Commitment	0.69	Positive
Benefits		0.49	Positive
Promotion		0.92	Positive
Working Conditions		0.52	Positive
Responsibility		0.27	Positive
Recognition		0.82	Positive

DEPENDENT VARIABLE (Employee Commitment) and INDEPENDENT VARIABLE (Extrinsic Reward & Intrinsic Reward)

Table 6: Regression of Dependent Variable and Independent Variable

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.640 ^a	.410	.405	2.18089

a. Predictors: (Constant), Independent Variable

Table 7 ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	442.157	1	442.157	92.963	.000 ^b
Residual	637.343	134	4.756		
Total	1079.500	135			

- a. Dependent Variable: Dependent Variable
b. Predictors: (Constant), Independent Variable

Table 8 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.981	1.286		3.096	.002
Independent Variable	.245	.025	.640	9.642	.000

- a. Dependent Variable: Dependent Variable

INTERPRETATION:

There is 41% (as stated in table 20) change in Employee Commitment due to Extrinsic Reward & Intrinsic Reward. Since the significance value of regression is 0.000 which is less than 0.001, there is significant impact of Extrinsic Reward & Intrinsic Reward on Employee Commitment.

V. Findings

The study was conducted to assess reward management practice and its effect with employees' commitment in the organisation. The specific objectives of the study included Identifyingto assess the current reward management practice of the company, to determine the relationship between reward management practice and employee commitment, to investigate the effect of extrinsic rewards on employee commitment and to investigate the effect of intrinsic rewards on employee commitment. The researcher used both descriptive and inferential statistics. To determine the influence of independent variables on dependent variable and to test whether hypothesis of the study accepted or rejected inferential statistics such as correlation and multiple regression were employed. Most respondents were in favour of the practices implemented in the company. This implies that the salary scheme and recognition provided to the employees are found to be attractive. However, most of the respondents indicated that the promotion and benefit packages were poor. This shows that the company doesn't provide the promotion opportunities and benefit packages in an effective way so as employees would get motivated to improve their performance level. The regression analysis was done to ascertain the extent to which the variables mentioned explain the variance in employee commitment. The value of Adjusted $r^2=0.405$ which indicates 40.5% of variance in employee commitment is explained by the variables salary, benefit, promotion, working condition, responsibility and recognition. The study supported the hypothesis that the reward practices have a significant influence on employee commitment. The research findings indicate that reward has a direct influence on the employee's commitment and it tends to increase the actual performance of employee, given that there is a positive and significant relationship between the independent and the dependent variables. Reward improves the initiation of employees to perform their job at higher level.

VI. Conclusion and Suggestions

The study recommended that to attract and retain competent employees, and must maintain its salary scale to the highest level and upgrade its salary scale in response to internal and external condition and the salary increment/adjustment must be made within a logical period. Alternative forms of reinforcement, letters of recognition for task performed well and creating an environment where the employees feel initiated to perform should be considered by the organization. The organizations should include both financial and non-financial rewards with appropriate mix. Because in today's competitive and challenging business environment the management must try to acquire or retain a well-educated, motivated and experienced worker by combining the financial and non-financial rewards provided to be competitive in that market and to make the organization profitable.