Rewards Affecting the Organizational Concerns

Doina I. POPESCU[1]

Abstract

To obtain and maintain a high-performing workforce, an enterprise must develop a well-conceived compensation program. In addition to a salary, employees may be rewarded with benefit plans, bonuses, perquisites, stock options, and other long-term incentives. The main purpose of this article is to study how rewards affect employee perceptions, attitudes, and behavior in a variety of ways. Also, the purpose of this article is to analyze how organizational efficiency and effectiveness are affected as well. The organizational concerns that are influenced by rewards, analyzed in this article, are turnover and absenteeism, performance, and commitment. In order to retain the best performers, to achieve high-levels of performance and to increase organizational commitment, managers must develop reward systems considering individual differences, integrating individual and organizational goals, designing challenging jobs.

Keywords: *reward, turnover, absenteeism, job performance, organizational commitment.*

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1. Introduction

The general assumption has been that intrinsic and extrinsic rewards have an independent and additive influence on motivation. That is, motivation is determined by the sum of the person's intrinsic and extrinsic sources of motivation. This straightforward assumption has been questioned by several researchers. Some have suggested that in situations in which individuals are experiencing a high level of intrinsic rewards, the addition of extrinsic rewards for good performance may cause a decrease in motivation (Deci, 1975). Basically, the person receiving self-administered feelings of satisfaction is performing because of intrinsic rewards. Once extrinsic rewards are added, feelings of satisfaction change because performance is now thought to be due to the extrinsic rewards. The addition of the extrinsic rewards tends to reduce the extent to which the individual experiences self-administered intrinsic rewards.

[1] **Doina I. POPESCU,** The Bucharest Academy of Economic Studies, Romania
E-mail: doinaipopescu@yahoo.com

The argument concerning the potential negative effects of extrinsic rewards has stimulated a number of research studies. Unfortunately, these studies report contradictory results. Some researchers report a reduction in intrinsic rewards following the addition of extrinsic rewards for an activity (Staw, 1974). Other researchers have failed to observe such an effect (Phillips&Lord, 1980).

Managers need to be aware that no scientifically based and reported study substantiates that extrinsic rewards have a negative effect on intrinsic motivation. At the same time, we have to pay attention that the way in which we structure the motivation system within organization is a strategic decision made by the organizations' leaders. The strategic leadership relies on their specific vision that they build up together with their co-workers (Năstase, 2010).

Also, managers are faced with the decision of how to administer rewards. What combination of methods to use is not, of course, the only issue in administering rewards. Organizational resources, competitive influences, labor market constraints, and government regulations are but a few of the many factors that must be considered in developing and maintaining reward programs (Manolescu&Puia, 2008).

Rewards affect employee perceptions, attitudes, and behavior in a variety of ways.. In turn, organizational efficiency and effectiveness are affected. Three important organizational concerns that are influenced by rewards are turnover and absenteeism, performance, and commitment. In this paper are examine each of these.

2. Compensation

To obtain (and retain) a high-performing workforce, an enterprise must develop a well-conceived compensation program. In this respect, an enterprise may choose one of three basic compensation strategies:

- Above market
  Enterprises that follow this strategy provide employees better than average compensation. The assumption behind this strategy is that "you get what you pay for." These enterprises believe that providing above-market compensation will enable them to attract and retain the best employees.
- At market
  This is perhaps the most frequently followed compensation strategy. It sets compensation at the prevailing market rate. The goal is simply to provide the compensation necessary to be competitive.
- Bellow market
  This strategy is followed by enterprises that compensate at the minimum rate required to hire just enough employees to remain in operation. It might be used because this is all an enterprise can afford and still remain solvent. Or, an enterprise could be attempting to maximize short-run profits. Whatever the reason, its implications for the long-term maintenance and retention of a qualified workforce are clearly unfavorable.

In addition to a salary, employees may be rewarded with benefit plans, bonuses, perquisites, stock options, and other long-term incentives.

Most enterprises offer various benefits to aid in retaining employees. These benefits are noncash forms of compensation employees customarily receive in addition to a salary. Also known as flexible benefit programs have become quite popular. Under such programs, some or all of an employee's benefits are tailored to his or her needs at different career stages. Generally, the plans give each employee a specific value of benefit "credits" based on the employee's position or years of service. The credit can be spent on a menu of benefit options. For example, employees who belong to two-income families – resulting in duplicate benefit coverage - might choose increased life insurance or child – care credits, while other employees might focus on retirement benefits or medical coverage. Typically, benefit credits are lost unless used within a calendar year. However, some plans pay cash for unused credits.

Some of the common employee benefits are: accidental death, dismemberment insurance, birthdays (vacation), day care centers, dental and eye care insurance, discount on enterprise products, education costs, educational activities (time off), free checking account, free or subsidized lunches, group automobile insurance, group life insurance, health maintenance organization fees, home health care, hospital-surgical-medical insurance, holidays (extra), interest-free loans, loans of enterprise equipment, long-term disability benefits, nursing home care, parking facilities, private office, shorter or flexible workweek, survivors' benefits, training programs etc.

Compensation received in addition to one's regular salary is a bonus. It is customarily tied to some measure of enterprise returns or profits. Such additional employee compensation serves as an incentive for improved individual performance. Bonus programs enable an enterprise to attract and retain well-qualified employees without jeopardizing its underlying salary structure. Rather than paying a high salary at a flat rate, employees are offered the opportunity to earn a bonus. In this way, compensation earned for outstanding performance in one year does not become a continuing salary obligation (Popescu, 2010).

Known as perks, perquisites are extra noncash forms of compensation. Typical examples include "car services", expense accounts, extra life insurance, supplemental pension programs, club membership, guaranteed attendance at annual conventions, personal investment counseling, personal legal advice, security protection, low-interest or no-interest loans, and apartments for top managers. To the extend perks are job-related, they provide employees with nontaxable income, a factor that is particularly important to those in high tax brackets. In addition to offering flexible benefit programs, some enterprises offer flexible perks programs.

Table 1 lists some of the more prevalent perks on a continuum according to use.

Table 1 A continuum of perquisites

Most common			Least common
Best appointed office (choice of office furnishings)	Airline VIP lounge	Company plane (personal use)	Company resort
Company car	Extra vacation	Executive dining room	In-town apartment
Company plane (business)	Financial counseling	Home security systems	Legal counseling
Medical exam	Tax counseling	Personal liability insurance	Low-interest loans
Club memberships	First-class air travel	Spouse travel	Sabbatical leaves
Business travel insurance	Liberal expense account	Chauffeur	Tickets for theater and sporting events
			Dependent tuition reimbursement

Some enterprises compensate employees with stock-options – the right to purchase a certain number of corporate shares, often below market price, for a specified time period. Stock options can take numerous forms:

[1] Junior stock plans.
An employee is offered special ”junior” nonvoting common stock that pays dividends. The shares can be exchanged for regular common stock, share for share, at a specified date if the holders meet certain conditions.

[2] Market-value purchases
Employees are lent money at a low interest rate to buy corporate stock at its current market value. They can repay the loan by direct payment or receive loan-payment credits for achieving preestablished performance goals.

[3] Book-value purchases
An employee is offered a chance to buy corporate stock at book value (or similar nonmarket-value measure) but can later resell it to the issuing corporation at the same price or at its true market value, whichever is higher.

[4] Exercise bonuses
An exercise bonus is payment to an employee who exercises an option to buy corporate stock at a predetermined price. The payment is equal to the amount gained from tendering the option. This helps the employee retain stock rather than having to sell it to pay taxes on the resulting gain.

[5] Performance shares
Employees are given credits (called performance shares), which can be cashed after, say, five years and whose value is based on some

predetermined internal measure of corporate profitability. Examples of such programs are corporates which award performance shares to top managers who remain with the firm for three to five years and attain certain preestablished goals.

[6] Founder's stock

This type of stock option is particularly prevalent among start-up businesses in the high-tech industries. It involves giving employees a chance to buy low-priced stock while an enterprise is in its embryonic stage. The understanding is that, if the enterprise grows and prospers, not only will the stock be worth a great deal of money, but the employee also will stand to own a sizable chunk of the enterprise.The opportunity to share in the wealth helps a new venture compete for the scarce talent it needs to build a successful enterprise. It also builds an incentive for employees to suffer through the inevitable growing pains of a new enterprise, since their stake in the enterprise's success may be substantial.

3. Rewards affect organizational concerns

Some managers assume that high turnover is a mark of an effective organization. This view is somewhat controversial because a high quit rate means more expense for an organization. However, some organizations would benefit if disruptive and low performers quit. Thus, the issue of turnover needs to focus on the frequency and on who is leaving.

Ideally, if managers could develop reward systems that retained the best performers and caused poor performers to leave, the overall effectiveness of an organization would improve. To approach this ideal state, an equitable and favorably compared reward system must exist. The feeling of equity and favorable comparison has an external orientation. That is, the equity of rewards and favorableness involve comparisons with external parties. This orientation is used because quitting most often means that a person leaves one organization for an alternative elsewhere.

There is no perfect means for retaining high performers. It appears that a reward system based on merit should encourage most of the better performers to remain with the organization. There also has to be some differential in the reward system that discriminates between high and low performers, the point being that the high performers must receive significantly more extrinsic and intrinsic rewards than the low performers.

Absenteeism, no matter for what reason, is a costly and disruptive problem facing managers. It is costly because it reduces output and disruptive because it requires that schedules and programs be modified. Employees go to work because they are motivated to do so. The level of motivation will remain high if an individual feels that attendance will lead to more valued rewards and fewer negative consequences than alternative behaviors.

Managers appear to have some influence over attendance behavior. They have the ability to punish, establish bonus systems, and allow employee participation in developing plans. Whether these or other approaches will reduce absenteeism is determined by the value of the rewards perceived by employees, the amount of the rewards, and whether employees perceive a relationship between attendance and rewards. These same characteristics appear every time we analyze the effects of rewards on organizational behavior.

Behaviorists and managers agree that extrinsic and intrinsic rewards can be used to motivate job performance. It is also clear that certain conditions must exist if rewards are to motivate good job performance: The rewards must be valued by the person, and they must be related to the level of job performance that is to be motivated.

According to the expectancy theory, every behavior has associated with it (in a person's mind) certain outcomes or reward or punishments. In other words, an assembly-line worker may believe that by behaving in a certain way, he or she will get certain things. This is a description of the performance - outcome expectancy. The worker may expect that a steady performance of 10 units a day eventually will result in transfer to a more challenging job. On the other hand, the worker may expect that a steady performance of 10 units a day will result in being considered a rate-buster by co-workers.

Each outcome has a valence or value to the person. Outcomes such as pay, promotion, a reprimand, or a better job have different values for different people because each person has different needs and perceptions. Thus, in considering which rewards to use, a manager has to be astute at considering individual differences. If valued rewards are used to motivate, they can result in the exertion of effort to achieve high levels of performance.

There is little research on the relationship between rewards and organizational commitment. Commitment to an organization involves three attitudes:

- A sense of identification with the organization's goals;
- A feeling of involvement in organizational duties;
- A feeling of loyalty for the organization.

Research evidence indicates that the absence of commitment can reduce organizational effectiveness. (Cohen, 1993). People who are committed are less likely to quit and accept other jobs. Thus, the costs of high turnover are not incurred. In addition, committed and higly skilled employees require less supervision. Close supervision and a rigid monitoring control process are time-consuming and costly. Furthermore, a committed employee perceives the value and importance of integrating individual and organizational goals. The employee things of his or her goals and the organization's goals in personal terms.

Intrinsic rewards are especially important for the development of organizational commitment. Organizations able to meet employee needs by providing achievement opportunities and by recognizing achievement when it occurs have a significant impact on commitment. Thus, managers need to develop intrinsic reward systems that focus on personal importance or self-esteem, to integrate individual and organizational goals, and to design challenging jobs.

Conclusions

An effective reward system would encourage the best performers to remain with the organization, while causing the poorer performers to leave. To accomplish this, the system must be perceivedas equitable. Additionally, the reward system shoulld minimize absenteeism. Generally, absenteeism will be less if an employee feels that attendance will lead to more valued rewards and fewer negative consequences.

Both extrinsic and intrinsic rewards can be used to motivate job performance. For this to occur, certain conditions must exist: the rewards must be valued by the employee, and they must be related to the level of job performance that is to be motivated.

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