

# Impact of Rewards on Organizational Performance: Empirical Evidence from Telecom Sector of Pakistan

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## ABSTRACT

**Purpose** – The purpose of this research paper is to explore the impact of rewards of salary, bonus, promotion, appreciation and recognition on organization performance in telecom sector of Pakistan.

**Design/methodology/approach** –This paper begins with a comprehensive review of the literature on impact of rewards on organization performance. Data was collected from 80 employees working in headquarter of PTCL mainly from middle management in Islamabad. Cronbach's analyses were carried out to check the validity and reliability of scales; correlation analyses and regression analyses were also conducted to test the hypotheses.

**Findings** –Empirical evidence proved that there exists insignificant and weak relationship between salary, bonus and organization performance. However there exists moderate to strong relationship between promotion and organization performance. Results also show highly significant and strong relationship between recognition and organization performance. The strongest and highly significant relationship exists between appreciation and organization performance. All the independent variable i.e. salary, bonus, promotion, recognition and appreciation are positively related with dependent variable i.e. organization performance.

**Research limitations/implications** – The findings are limited to some extent by the Sample size was also a limitation because of the shortage of time and the resources constraints. More organizations under Telecom Sector may be included under study to generalize the study. Furthermore variables might be included to signify this model.

**Practical implications** – The paper provides evidence that will help telecom sector to understand the importance of rewards to achieved organization goal and increase the organization performance.

**Originality/value** –This study show that organization need to made a focused on their rewards polices try to increase the satisfaction of employee of organization that helps to increase the performance of organization.

**KEYWORDS:** Extrinsic Rewards, Intrinsic Rewards, Organization performance.

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## 1. INTRODUCTION

One of the leading challenges in organizations has been implementing effective human capital strategies to enhance their productivity. Employees, technically known as human resources in modern organizations, are rightly considered as the most important assets. Most businesses now have the line in their promotional activities saying "Our employees are our most important asset". Modern organizations need to take care of their assets and when it comes to employees then taking care means satisfying them by fulfilling their wants, both financial and non-financial. If organization fails to do so, employees will be tempted to leave the organization. Many large companies today spend large amounts of money trying to make their employees more productive. However, investing money in the productivity of your employees is useless if the leaders do not understand how to recognize and reward those who are under them. In addition to money, most people love receiving large amounts of praise and recognition for their accomplishments.

This will give them an incentive to work harder, which will benefit organization. Rewards play an important role in a success of organization. Rewards motivate employees to do work hard. People are motivated to get intrinsic rewards. All employees are motivated by rewards. So if we want to get a success in competitive environment than we must need to achieve high performance of employees. Some people are motivated by extrinsic rewards such as increase in pay, promotions and bonus. Employees who are motivated by extrinsic rewards are less motivated. In this study subject area is HRM that focus on rewards system and organization performance in telecoms sector. Research is going to conduct in Islamabad; five years data of Pakistan Telecom Company limited is analyzed to clearly examine reward policies and its effect on organization success. If employees are motivated they will assure organizational success. Reward for the extra ordinary work is very important so that employees remain motivated to

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do work more efficiently. PTCL have also the reward system for its employees so that they remain motivated. They have a separate fund for this purpose and give it to those persons who work more than that require from them. So that such kind of the employee should add value to the company with their efforts. Other than this reward system it also provides various facilities and benefits to its employees for example, all employees regardless of their position have medicine facility so that they can have medicine for themselves as well as for their families. PTCL also have various medical centers and if the person has some serious illness they also referred to another hospital. Salary is an important factor to see whether employee is satisfied or not. If employee is satisfied with its salary than is motivated to do work hard.

#### **Research Questions:**

- 1) What is the effect of reward on the organization performance?
- 2) Which kind of rewards is more significant to increase organization performance?

#### **2) Objective of study:**

- To identify the relationship between rewards and organization performance.
- To find the affect of extrinsic rewards on organization performance.
- To find the affect of Intrinsic Rewards on organization performance.

#### **Problem Statement:**

To analyse the impact of Rewards on Organization performance. This is an attempt to explore the impact of a human resource practice (Extrinsic and Intrinsic Rewards) on employees and in turn their contribution towards organization performance.

#### **Significance of study:**

Rewards play important role in success and failure of organization. Employees don't work for free. Rewards are important for employees because people work only for rewards. Organizations provide rewards to their personnel in order to try to motivate their performance and encourage their loyalty and retention. Organization rewards take a number of different forms including money (salary, bonuses, and incentive pay), recognition and task autonomy.

#### **Management theories:**

Our idea of total rewards and its significant impact on employee motivation is strongly complemented by previous management theories.

#### **Incentive Theory:**

While other theories of motivation support the belief that the cause of responses is internal, the incentive theory says that in fact the environment brings out behaviors. The basic concept behind the incentive theory is goals. When a goal is present, the person attempts to reach that goal. The goal may be anything. Incentives may be tangible or intangible. An intangible incentive may involve feeling good about oneself, while a tangible one may involve awards or something to give public recognition. Intangible incentives are also known as intrinsic rewards, while tangible incentives are also known as extrinsic rewards. Sometimes, one type of reward is replaced with the other. This usually happens when an intrinsic reward is replaced with an extrinsic reward. For instance, consider someone who becomes a doctor. At first, the person may have become a doctor because he or she enjoys being able to help people (intrinsic); later on, however, the reason for being a doctor may change to money (extrinsic). Suppose, however, that the hospital must have cutbacks, and they offer the doctor a choice: continue being a doctor and continue helping people but with a substantial pay cut, or become an administrator for somewhat more money than before. The doctor would likely take the raise even though it would mean he or she wouldn't be helping people anymore because the external reward of the increased pay would outweigh the internal reward of the satisfaction gained by helping people. This situation is known as the over justification effect. In general, over justification occurs when the external rewards becomes the only reason for continuing a behavior.

## **LITERATURE REVIEW**

CEO rewards of owner-controlled firms may be based on performance criteria, however, executive rewards of owner-manager-controlled firms may be based on both performance and nonperformance factors. The findings also suggest that increases in corporate size due to acquisitions are significantly and positively associated with CEO

rewards of manager-controlled and owner manager-controlled firms. For owner-controlled firms, excess returns are significantly and positively associated with CEO rewards (Mark Kroll, Peter Wright, and Leslie Toombs 1997)

The findings should be useful to managers who are interested in changing trust levels within their organizations, and also to managers who are interested in anticipating the effects of planned reward changes. It also suggests that managers can expect rewards to have strong, predictable effects on interpersonal trust. Yet our analyses also suggest that, rather than having a straightforward, direct effect on trust, rewards appear to affect trust by influencing individuals' perceptions about each other's motives, their perceptions of joint performance, and their evaluations of their own behavior based on those reward structures. (Donald L. Ferrin and Kurt T. Dirks Organization Science 2003) According to this study, intrinsic motivators such as professional travel, as opposed to extrinsic motivators such as cash, appear to lead to greater intrinsic motivation, job enrichment, and involvement in professional activities. So teachers who select the professional travel rewards are motivated than select the cash (Larry E. Frase (1989).

The purpose of this paper was to examine the effects that income and pay satisfaction have upon OC across different structural settings. Specifically, the relationship between income and OC for professionals is significantly higher than that obtained for clerical workers. These data challenge the common assumption that intrinsic considerations are necessarily more important for generating positive work attitudes and behaviors among professionals. In fact, for pay satisfaction, the correlations are stronger for lower status occupations (Aaron Cohen and Urs E. Gattiker Journal of Business and Psychology 1994) Rewards had a positive impact on subjects' task performance. It was also found that feedback interacts with choice and with rewards to produce a significant difference in performance. Employee who has rewards choice and feedback right their performance is high. So employees who have no right to select a reward and provide feedback performance is low (Steve Williams and Fred Luthans Source: Journal of Organizational Behavior 1992)

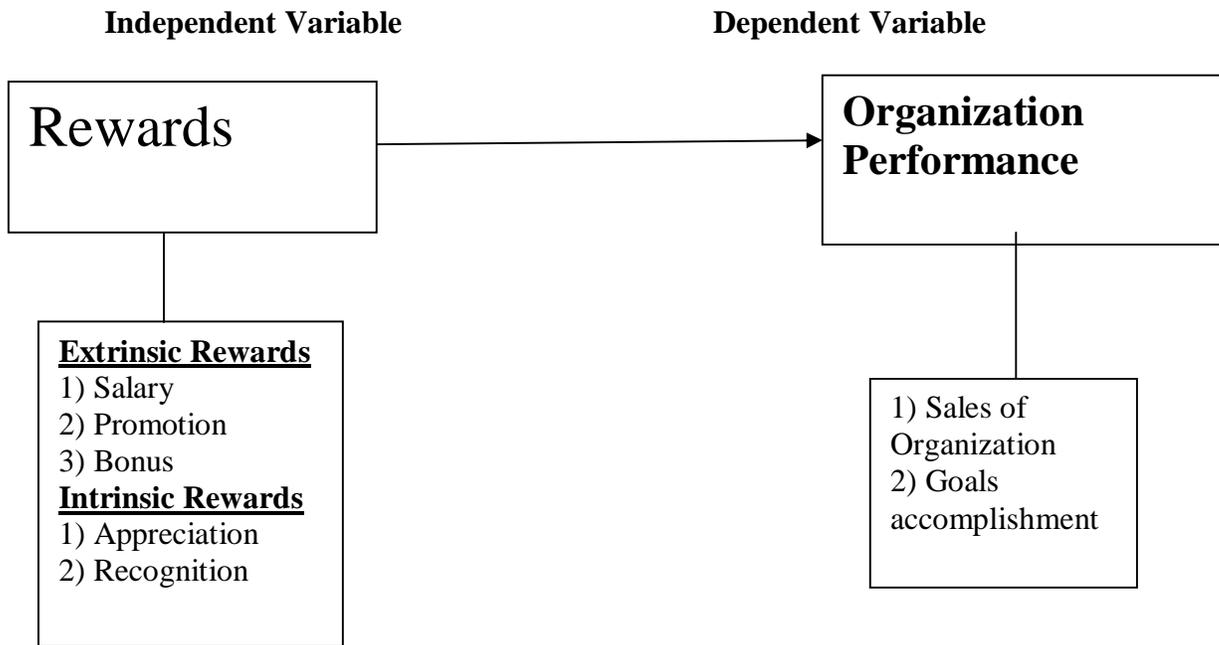
The effectiveness of skilled employees is likely to be limited if they are not motivated to perform. One of the means that organizations can use to enhance employee motivation and performance is to provide performance-related compensation (Delaney and Huselid, 1996). A reward and compensation system is based on the expectancy theory, which suggests that employees are more likely to be motivated to perform when they perceive that there is a strong link between their performance and the reward they receive (Fey and Bjorkman, 2001; Guest, 2002; Mendonca, 2002). In other words, the compensation system (e.g. profit sharing) contributes to performance by linking the interests of employees to those of the team and the organization, thereby enhancing effort and performance (Kalleberg and Moody, 1994; Huselid, 1995; Kling, 1995). Four commonly used variable pay schemes are profit-related payment, employee share-ownership plans (ESOP), profit-sharing schemes, and group performance-related schemes. Profit-related pay schemes provide employees with tax-free payments linked to the profitability of their companies. An ESOP allows employees to take a stake in the company they work for through shares of stock that are awarded to them. A profit-sharing plan rewards employees with a part of a company's profits for their contribution to the company's success. The reward can be in the form of cash, shares or a combination of both. Group performance-related schemes reward a group or team of employees with a cash payment for achieving an agreed target. These schemes are all designed to enhance company performance by aligning the interests of employees with the financial performance of their companies. Several studies have revealed the positive effects of reward and incentive systems on organizational performance. Banker and Lee's (1996) empirical research, which is based on data from 34 stores of a major retailer over 77 months, supports the theoretical prediction that stores that implement an incentive plan will experience a positive impact on sales, profit and customer satisfaction. A study based on data from the US National Organizational Study, conducted by Kalleberg and Moody (1994), also found that profit sharing is positively correlated with product quality, product development, profit, customer satisfaction, and growth in sales. Cook (1994 in Kling, 1995) found that the use of profit sharing was positively associated with higher productivity in an analysis of 841 manufacturing establishments. All employees are satisfied by extrinsic rewards while low level employee satisfied with intrinsic rewards (Clifford J. Mottaz 1985) The result obtained from the analysis showed that there existed relationship between extrinsic reward and the performance of workers, while no relationship existed between intrinsic rewards and workers performance (Chris Ajila and Awonusi Abiola journal of social science 2004). So above literature review help us to generate our hypothesis that rewards have positive effects on organization performance.

### **Theoretical Framework:**

Theoretical framework shows logical relationship between dependent variable and independent variables. Researcher takes a rewards as independent variable while organization performance as dependent variable. Rewards are further divided into 2 types as extrinsic rewards and Intrinsic Rewards. Extrinsic Rewards are promotion, salary, bonuses etc. Intrinsic Rewards includes appreciation and recognition etc. Organization provides extrinsic rewards

can increase the cost of organization. So there is a strong relationship between rewards and worker performance. So a pervious study indicates positive relationship between rewards and organization performance.

**Research Model**



**Hypothesis:**

**Hypothesis I:** = There is a positive relationship between Rewards and Organization Performance.

**Hypothesis II:** = There is negative Relationship between Rewards and Organization performance.

**RESEARCH DESIGN AND METHODOLOGY**

This chapter highlights how the research problem was explored, the sampling criteria, variables selection, the model used for the research and the statistical techniques utilized for the data analysis to find out the relationship between rewards and organization performance in Pakistan Telecom Company limited.

**Data set:**

The dataset is to be obtained from the employees working in PTCL Head office in Islamabad. The reason for limiting to collect data from respondents working in Islamabad is due to getting quick response. Due to non-availability of secondary data to the variables under investigation, the researcher intended to collect primary data through questionnaire from targeted samples of PTCL, s employees.

**Sample:**

The sample consisted of the employees working in PTCL at managerial and operational job level conveniently available to participate. Sampling method was used to collect the primary data. A sample of 42 respondents was used and which includes both male and female respondents.

**Research Design:**

The research design adopted for this study is explained as follow:

**Type of Study:**

This is a cross-sectional study and data is collected only once for the research purpose.

**Type of Investigation:**

The type of investigation in this case is causal and the effect of different independent variables measured on the dependent variable.

**Research Instruments:**

Different statistical test were used to calculates the results of research as

- Reliability Test
- Mean and Standard deviation Analysis
- Correlation analysis
- Regression analysis

**Data Analysis:**

Descriptive analysis, Pearson’s correlation coefficient and Regression are used to find the impact of rewards on organization performance. A Trial version of SPSS 17 is used for this purpose.

**RESEARCH FINDINGS AND DISCUSSION**

**Reliability Analysis:**

Cronbach's Alpha	No of items
.782	16

Fig: s Reliability Statistics

In fig: 1 our research the reliability of the items is checked through Cronbach’s alpha that is 0.782 which shows that our research variables are reliable and there exists internal consistency between them.

		Salary	Bonus	Promotion	Recognition	Appreciation	Org performance
<b>Salary</b>	Pearson Correlation	1	.129	.151	.168	-.104	.132
<b>Bonus</b>	Pearson Correlation		1	.221	.303	.148	.133
<b>Promotion</b>	Pearson Correlation			1	.475**	.143	.310*
<b>Recognition</b>	Pearson Correlation				1	.345*	.475**
<b>Appreciation</b>	Pearson Correlation					1	.701**
<b>Org performance</b>	Pearson Correlation	.132	.133	.310*	.475**	.701**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).  
 \* . Correlation is significant at the 0.05 level (2-tailed).

**Fig: 2 Correlations**

In fig: 2 the results which are drawn from correlation matrix show that all the independent variable i.e. salary, bonus, promotion, recognition and appreciation are positively related with dependent variable i.e. organization performance.

Results indicate that there exists insignificant and weak relationship between salary, bonus and organization performance (0.132, 0.133). However there exists moderate to strong relationship between promotion and organization performance (0.310).

Results show highly significant and strong relationship between recognition and organization performance (0.475). The strongest and highly significant relationship exists between appreciation and organization performance (0.701).

	N	Minimum	Maximum	Mean	Std. Deviation
Salary	42	3.67	5.00	4.5079	.41801
Bonus	42	3.67	5.00	4.5317	.34578
Promotion	42	3.33	5.00	4.3968	.50600
Recognition	42	2.33	5.00	4.2619	.60502
Appreciation	42	2.50	5.00	4.0714	.66783
Org performance	42	3.00	5.00	4.2381	.62701
Valid N (listwise)	42				

**Fig: 3 Descriptive Statistics**

It tells about the minimum and maximum values of these variables. The standard deviation of any values shows that how much you are deviated from your mean so its low value is favorable sign and it should must be half of the mean or less than that so all these values in the table are less than mean of these variables that shows data is correct.

Descriptive statistics shows that the respondents are satisfied with the importance of rewards for organization performance. This is shown by the mean values which are mostly 4 and above 4.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.769 <sup>a</sup>	.591	.534	.42799	.591	10.399	5	36	.000

a. Predictors: (Constant), Appreciation, Salary, Bonus, Promotion, Recognition

**Fig: 4 Model Summary**

In regression analysis if significance level is less than 0.05 than the independent variable has significant relationship with dependent variable. According to the study results there exists highly significant relationship between rewards and organization performance.

In fig: 4 R square value is .591 that indicate our dependent variable is 59 % determined by independent variable that are salary, bonus, promotion, recognition and appreciation while 41 % effect is because of other variable that are not included in our study.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.525	5	1.905	10.399	.000 <sup>a</sup>
	Residual	6.594	36	.183		
	Total	16.119	41			

a. Predictors: (Constant), Appreciation, Salary, Bonus, Promotion, Recognition  
b. Dependent Variable: Org performance

**Fig: 5 ANOVA**

In fig: 5 the value of F is 10.399 which indicate that our model is accepted but is not highly significant because of two insignificant variables i: e salary and bonus. If these variables are removed from model than F value will be significant.

So above results shows that rewards and organization performance have a positive relationship and H1 is accepted. While if organization increase its rewards than its performance not decrease so there is no negative relationship between rewards and organization performance. So H2 is rejected. Our finding also tells us that intrinsic rewards are more useful to increase the organization performance as compared to extrinsic rewards.

## Conclusion

Our Study shows that appreciation and recognition are two main factors which effects on organization performance in Pakistan Telecom sector limited. Therefore results indicate that there exists insignificant and weak relationship between salary, bonus and organization performance. This shows that intrinsic rewards play an important role to increase the organization performance. So if organization provides intrinsic rewards to its employee than employees are more motivated as compared to extrinsic rewards. Organization can increased their

performance by providing intrinsic rewards in a shape of certificates and by giving performance rewards. Intrinsic rewards are less costly as compared to extrinsic rewards for organization.

These Finding will help organization to modify their rewards polices and have focused on intrinsic rewards. Further future research is needed to be conducted to finds the effects of other variable like working environment of organization. Our sample size is small if research is conducting with big sample than its finding would be generalized.

### **Limitations of study**

The study was conducted after getting the response from the employees of the PTCL. The Organization performance level and the reward policies can vary sector to sector. The data was collected from PTCL in Islamabad. Further research is needed in this sector for the sake of measuring Organization performance affected by different types of rewards by incorporating the branches in the rural or less developed areas. Sample size was also a limitation because of the shortage of time and the resources constraints. More organizations under Telecom Sector may be included under study to generalize the study. Further more variables might be included to signify this model.

### **Suggestions for future research:**

This study can help the researchers to find out the new ways through which it could be realized that as the competition within and the outside the organization is increasing and the whole world is turning into a global village, developed countries and their industries recognize that to compete the competitive firms and to maintain their position in the market as well as to improve their investment and the image in foreign countries and to flourish their industries In these countries they must have capable personnel so that through strong strategies and by sorting out the new ways to achieve their goals efficiently and effectively. To get maximum results it is needed that the loyalty in the employees could be increased. Rewards play an important role to improve the satisfaction and intention to stay in the organization which ultimately increases the loyalty level. In the context of Pakistan economy where the industrial sector is not growing and the employees who are related with these industries are not as satisfied as their basic needs are not being fulfilled by their jobs. To increase the realization of the importance of the personnel this research paper can play a vital role but in future further research is still needed to highlight this issue.

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## Appendix

### Questionnaire

Sir/Madam,

It is to highlight that we are lecturers at COMSATS Institute of Information and Technology, Lahore and are conducting a research on **Impact of Rewards on organization performance**. We would like you to fill-up the questionnaire as you people have expertise and practical experience. We believe that your fair and expert feedback will make this research a successful one.

We assure you that the information provided by you will be kept confidential and will only be utilized for the study purpose.

Thank you and best regards,

**SECTION A: REWARDS**

S.NO	Questions	1	2	3	4	5
		Strongly dissatisfied	Dissatisfied	Neutral	satisfied	Very satisfied
	The following is a valuable Extrinsic reward for good performance.					
1	My current increase in salary					
2	Influence of my supervisor on my pay					
3	The number of benefits received					
4	Annual company performance bonus.					
5	Consistency of company bonus policy					
6	Bonus given at religious occasions					
7	Potential promotional opportunities					
8	Promotion on seniority basis					
9	My last promotion in organization					
S.NO	Questions	1	2	3	4	5
		Strongly dissatisfied	Dissatisfied	Neutral	satisfied	Very satisfied
10	I prefer recognition to be given in writing.					
11	It is important to me to be recognized for my work.					
12	I receive continuous feedback and recognition.					
13	Informal praise from your superior (thank you)					
14	Formal praise from your superior (certificate)					
15	The sales of the organization have increased in last 5 years.					
16	Organization goals are achieved & defined on time efficiently and effectively.					

**SECTION B: PERSONAL INFORMATION**

**Organization Name:** \_\_\_\_\_

**Your designation:** \_\_\_\_\_

<b>Gender</b>	(a) Male (b) Female
<b>Age</b>	a) under 21 b) 21-29 c) 30-39 d) 40-49 e) 50-59 f) over 60