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Effect of Reward System on Employees' Productivity: A Study of Guaranty Trust Bank Ilorin Metropolis

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Abstract

Reward system is a veritable medium used to increase employees' productivity. It seeks to attract and retain suitable employees, encourages good management. Employee productivity is hindered when rewards system is inadequate. The main objectives of the study were to examine the effect of reward system on employees' productivity. This study unfolds a number of factors that account for an equitable reward system for effective performance and efficiency. The population comprises of 92 staff of the selected staff of the bank under study. Multistage sampling technique was used and 44 staff were purposefully selected for gathering data for the study. Data was collected and analyzed using frequency table and linear regression to examine the effect of reward system on employees' productivity. Findings of the study show that there is a significant effect of reward system on employees productivity with $\beta = .0124$, $.0001$, $p\text{-value} < 0.05$. This implies that an increase in the covariates increase in the reward via productivity. In view of this, the study recommends that the organizations' reward packages should be linked to productivity, employee satisfaction and motivation. Also, organization efficiency and sustainable can be achieved through institutionalization of good reward system.

Keywords

Employees, reward, productivity, Ilorin

Introduction

Reward system is the instrument used to increase employees' productivity. It seeks to attract and retain suitable employees, encourages good management – employee relationship and commitment and minimizes tension and conflict as it deals with all forms of final returns, tangible service and mechanism for good relationship (Redmond, 2016). A well-organized reward system will motivate and energize employees because it recognizes the achievements of

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employees. Reward system implemented by an organization will influence employees' behavior and attitude towards their job if the reward satisfies their needs and help them to reach their personal their goals. When employees desire to get the rewards, they will change their behavior in order to achieve the minimum level of performance required by organisation (Safiula, 2014).

Rewards is an important element to induce workers to contribute their utmost effort to bring out innovative ideas that ensures better business functionality and further improvise company performance both financial and non-financially. Much research on leaders' power have found that supervisor reward power would be positively associated with employee task performance, productivity, satisfaction, turnover, and organizational citizenship behaviors (Ibrar & Khan, 2015).

Employee will give their maximum when they have a feeling or trust that their efforts will be rewarded by the management. There are many factors that affect employee performance like working conditions, worker and employer relationship, training and development opportunities, job security, and company's overall policies and procedures for rewarding employees, etc. Among all those factors which affect employee performance, motivation that comes with rewards is of utmost importance. Motivation is a combination of different processes which affect and control our attitude towards achieving goals (Baron, 1983).

Rewards can be seen as extrinsic which are tangible rewards and such are external to the task performed by the workers. External rewards can categorize in terms of salary/pay, incentives, bonuses, promotions, job security, etc. Intrinsic rewards are psychological rewards like appreciation, meeting the new challenges, positive and caring attitude from employer, and job rotation after attaining the goal.

According to Luthans (2002) there are two basic types of rewards, financial and non-financial and both can be utilized positively to enhance performance behaviors of employees. Financial rewards mean payment for performance such as performance bonus, job promotion, commission, tips, gratuities and gifts etc. Non-financial rewards are non-monetary and it is a form of social identification such as acknowledgement, certificate, and utmost appreciation etc. The non-financial rewards are also called materials award (Ong & Teh, 2012).

Statement of the Problem

Many managers and chief executive officers in banking industry are frustrated because they spend hundreds of thousands of naira on employee rewards and they do not see any commensurable impact. They are often the same managers who do not base their reward strategy on over a hundred years' research dedicated to studying human behaviour, motivation and reinforcement. It is

pertinent to note when it comes to reward, bigger is not always better or cash might not be the better but the timing of the reward especially in banking services can be more important than the value of the reward because of the nature of the job. Some organizations over the years have seen employees as a cog in the wheel of organization machine, liabilities and resources drainage that could have been used in other productive areas of the organization and as such, effective reward system has been relegated to the impertinent value of consideration.

Ineffective reward system can decrease employee motivation, increase skepticism and contribute to opposition in the workplace which can lead to unproductive workforce, defeat of organizational objectives and goals. Thus, bank managers should understand what constitutes an effective reward system, which behaviors to reward, when to reward and how to reward and how to shape employee behaviour using reward. It is as a result of the aforementioned problems that this research is geared towards examining the impact of reward system on employee's productivity with the following question in mind, can reward system have impact on corporate efficiency?

Objectives of Study

The general fundamental objective of this research is to examine and assess the impact of reward system on employee's productivity. The specific objective is to determine the impact of reward system on corporate efficiency.

Hypothesis

Ho: Reward system does not have any impact on employees' productivity.

Literature Review

Concept of Reward System

Productivity has become the key with which an organization can become sustainable or have competitive edge in an environment that is fraught with stiff competition, and one of such ways of enhancing productivity is through understanding of employee's need by providing a veritable reward system. Rewards systems are often implemented within organizations as a key management tool that can contribute to a firm's effectiveness and corporate efficiency by influencing individual behavior and motivating employees at work (Lawler & Cohen, 1992). Good working conditions, worker and employer relationships, training and development, job security and company's overall policies and procedures for rewarding employee have an impact on employee productivity (Agwu, 2013).

Reward practices play a vital role in improving employee performance and achieving organizational goals (Pratheepkanth, 2011). Many researchers have identified that employee rewards directly attach to employee performance and

productivity. This view was underscored by Redmond (2016) when he states that if organization fails to reward employees, it will directly decrease employees' productivity and an efficient reward system can be a good motivator so also an inefficient reward system can lead to demoralized employees in terms of low productivity, internal conflicts, absenteeism, high turnover, lack of commitment and loyalty, lateness and felling grievances. Therefore, an organization needs to develop a strategic reward system for employees in order to retain competent employees which results to obtain a sustainable competitive advantage.

According to Ali & Abiola (2004) various organizations staff have shown that they have diverse needs that require a comprehensive total reward system to meet the needs of various employees. As a result, organizations have been faced with the challenge of implementing and offering competitive rewards to workforce for the purpose enhancing their performance. One popular approach to enhancing productivity and corporate efficiency has been linking rewards to performance through various forms of incentive pay such as special recognition to acknowledge outstanding individual or team achievements with small cash awards, individual performance rewards based on specific employee performance criteria and stock ownership rewards to professionals who meet specific goals.

Apeyusi (2012) states that poor remuneration is related to profits made by organization. Wage differential between high and low income earners was related to the low morale, lack of commitment and low productivity.

Types of Reward System

Reward system has been delineated along two broad categories of intrinsic and extrinsic factors that accrue to individual employee in his or her task performance.

Intrinsic Reward System

These are rewards that tend to give personal satisfaction to individual in the course of performing its job. Some organization believes that non-monetary reward or intrinsic rewards are easier to implement than monetary reward and useful for company success. Ong & Teh (2012), asserted that intrinsic reward may be as important as extrinsic reward in motivating employees for better performance. Intrinsic reward is defined the intrinsic motivation as the effort expended in employees' work to satisfy their growth needs such as achievement, capabilities and self-improvement.

Extrinsic Reward System

This refers to the monetary value or reward system that is attached to performance such as salary and incentives or indirectly through contributions to employees' benefit plans such as medical benefits and life insurance. Other examples of extrinsic rewards such as pay and fringe benefits, promotion or advancement opportunities within the organization should be offered in the organizations' rewards system (Ong & Teh, 2012).

Elements of Reward System

- **Compensation**

Compensation can be linked to business structure and employee recruitment, retention, motivation, performance, feedback, and satisfaction and are typically among the first things potential employees consider when looking for employment. For employees, compensation is the equivalent not to how they are paid, but ultimately, to how they are valued. Employees are compensated on the bases on of hourly work, work paid according to the number of unit produced (piece work), Overtime covered by labor law and exemption not covered by labor law. Compensation packages can be considered total rewards systems, containing nonmonetary, direct, and indirect elements (Shiyamala, 2012).

- Non-Monetary Compensation:** any benefit an employee receives from an employer or job that does not involve tangible value.
- Direct Compensation:** an employee's base wage which can be an annual salary or hourly wage and any performance-based pay that an employee receives.

Indirect Compensation: far more varied, including everything from legally required public protection programs such as Social Security to health insurance, retirement programs, paid leave, child care or moving expenses (Shiyamala, 2012).

- **Performance Recognition**

The best recognition programmes are those that align with an organization's objectives and are not stand alone programmes. Not all recognition programmes involve financial payout; the recognition could be a simple, symbolic gesture from the line manager or colleagues. This is inexpensive and goes a long way. Formal recognition plans can serve as a tool for motivation in the organization.

- **Career Development**

If you offer professional development, you not only foster employee loyalty, you improve the skills of your workforce. Provide tuition assistance, technology training, time off for outside seminars or mentoring programs that help employees grow in their careers (Cowherd & Levine, 1992).

- **Reward Mix**

The kind of rewards that organizations give to individuals can vary widely. For example, the money that is given can come in many forms varying all the way from stock to medical insurance. Organizations can choose to reward people almost exclusively with cash, downplaying fringe benefits, perquisites, and status symbols. The reward mix can determine the type of people who work for an organization (Lawler, 1993).

- **Member Preference**

One element in the structure of reward system is that of member preferences. This notion is very important as it defies the assumption of reward system in place would influence all employees in the same way. However, this is not always the case as shorter work week may not be appealing to some employees. For instance, Group insurance and medical scheme are less costly for the members than individual organized plan. Thus, these organizationally arranged group benefits constitute significant indirect rewards.

- **Cafeteria Approach**

In this approach, individual is allowed to choose from among a set of differentially priced perks and benefits for a given total amount. For instance, employees of a sport-marketing firm may be allowed to choose from among several benefits (e.g. medical cover, pension contribution, paid leave, and straight cash) for the total of the bonus allotted for the year. Such an approach would satisfy the preferences of different employees. In this scenario, older employees may opt for medical coverage while the younger employees may go for straight cash in order to offset expenses (Chelladurai, 2006).

- **Lump Sum Payments**

A one-time payment for employee performance to ensure flexibility in how the annual merit pool is distributed among staff, managers and administrative officers may provide lump sum merit payment in addition to or in place of a base pay merit increase. The term lump sum payment is used in conjunction with bonuses as well as salary raise. Bonuses are lump

sum payment made to employees in recognition of their performance during a specified period of time (E.g. quarterly, semi-annual or annual bonuses) (Chelladurai, 2006).

Challenges of Reward System in an Organisation

1. **Rewards not understood by people:** The employees in general are not aware of the process that goes behind the plan, design and delivery of the Reward Programs. The same are also not communicated adequately/effectively to the people, and the engagement/involvement of the line managers are also not sought in the process either. As a result, HR is not able to either articulate or maximize the value of such Rewards to its internal customers.
2. **Rewards not linked to company's business:** While planning and designing the Employee Reward Programs, it is often found that HR actually works in isolation or at best with a only few chosen stake holders who they are 'comfortable' with, and not in overall alignment with the company's goals (vision/mission) or its business strategies. The same results in a lack of broad alignment between the employee needs and the employer's top objectives.
3. **Rewards not linked to employee performance:** More often than not, it is the 'perception' around the intent and efforts of employees, rather than the actual results or outcome delivered that drive performance measures and the rewards associated with the same. Developing clear expectations, creating a clear line of sight, setting achievable goals and establishing a credible measurement system are some of the areas that such companies should focus on. Leading industry research reveals that more than 80% of highly successful companies consistently display certain common attributes like clear/common employee goals and performance based rewards.
4. **Rewards not linked to the job to be performed:** The absence of a proper Job Evaluation System or well designed Job Descriptions often fail to differentiate between the real job at hand and its worth, as against loosely crafted designations/positions. The pitfall of the same is an incorrect/inappropriate job mapping exercise with the equivalent market jobs, resulting in 'orange to apple' and not 'orange to orange' kind of job matches, and hence incorrect/inappropriate worth/price linked to such jobs during the hiring of employees and their annual salary reviews.
5. **Rewards not linked to the labor market:** Those companies which do not track their competition or compare their salary levels with the industry are always at a disadvantage of not paying their employees Market level

salaries, and hence losing out in talent attraction/talent retention. It is always wise to get Market Salary Data periodically, and fresh custom surveys providing real time data are the best options (Chelladurai, 2006).

Reward System and Employees' Productivity

Rewarding employee's effort for job done has been a keystone for increased productivity and performance. Reward management influences productivity by recognizing and rewarding good performance and by providing incentives to improve it.

According to Brooks (2013) of business daily report based on surveys from more than 120,000 respondents in 31 countries, including nearly 12,000 in the United States, they noted that business looking to boost productivity should consider tying employee pay to company performance. The study initiated by workforce solutions found that 40 percent of employees feel they would be more productive if they had their earnings linked to certain performance or productivity goals. Currently, nearly a third of the companies surveyed use a performance-based pay system with their employees. Performance-based pay includes any arrangement where an element of the total salary is tied to meeting performance targets, including profit-sharing, performance bonuses and sales commissions. Steve Armstrong, senior vice president and general manager of U.S. operations for Kelly Services, said the trend reflects widespread recognition that organizations and individuals are most productive when their interests, including incentive-based pay, are aligned (Brooks, 2013).

There are many employees who are clearly confident in their ability to perform their jobs well, and they want the opportunity to be compensated according to their performance. The study found that among professional and technical employees, the highest rates of performance-based pay are in sales and marketing, with the lowest being in education and science. Overall, less than 40 percent of the employees surveyed feel they are being paid fairly. Performance-based incentive plans can be a win-win situation, Employees can benefit from the opportunity to work smarter and raise their earnings capacity, while employers benefit from increased productivity and a more engaged workforce (Brooks, 2013).

Theoretical Review

Maslow's Theory of Need

Robbins & Judge (2008) explained that supposed to be a motivation basis has been used to interpret the entire spectrum of human behavior. Maslow proposed that motivation is a function of five basic needs-physiological, safety, love, esteem and self-actualization-which are arranged in the predictable stair-step fashion (refer to Figure 1), and he explained that a person's physiological

needs must be firstly met followed by safety needs, and so on up the need hierarchy. When designing total reward strategy, employees' multifarious needs must be well considered, Maslow's points will help the organization reach its expectation.

Expectancy Theory of Motivation

Expectancy Theory includes three dimensions, say, expectancy, instrumentality and valence, the level of all of which must be high if desired behaviors are looked forward to in employees' work. The position of Expectancy Theory in total reward strategy centers on the relationship between pay-for-performance and the expectancy theory of motivation (Robbins & Judge, 2008). It's certain that the staff want their needs satisfied, however, they also would like to be treated fairly by the organization.

Adam's Equity Theory of Motivation

Adams' Equity Theory concentrates on the concept of fairness in the workplace. Employees are probable to compare the inputs they devote to the work with the outputs they receive from the organization. The equity theory of motivation assumes a balance of employee inputs and outputs as compared to others (Decenzo, David & Robbins, 1999). Once they feel they get less outputs than inputs, which means there isn't a balance, employees are tend to be unsatisfied and not motivated. Thus, when total reward strategy is brought to bear it must assure the employees realize the justice of the corporation, for example the procedural justice of performance management.

Reinforcement Theory

Reinforcement theory states that a response followed by a reward is more likely to reoccur in the future (Thorndike's Law of Effect). The implication for compensation management is that high employee performance followed by a monetary reward will make future high performance more likely. By the same token, high performance not followed by a reward will make it less likely in the future. The theory emphasizes the importance of a person actually experiencing the reward.

Like reinforcement theory, expectancy theory focuses on the link between rewards and behaviors (instrumentality perceptions), although it emphasizes expected (rather than experienced) rewards (i.e., incentives). Motivation is also a function of two other factors: expectancy, the perceived link between effort and performance, and valence, the expected value of outcomes (e.g., rewards). Compensation systems differ according to their impact on these motivational components. Generally speaking, pay systems differ most in their impact on instrumentality: the perceived link between behaviors and pay, also referred to in the pay literature as "line of sight." Valence of pay outcomes should remain

the same under different pay systems. Expectancy perceptions often have more to do with job design and training than pay systems (Robbins & Judge, 2008).

Review of Empirical Literature

Ibrar & Khan (2015) outlined the principal elements of total reward which include basic salary, variable pay, pension benefits, death-in-service benefits, long-term disability benefits, private medical insurance, vacation entitlement, company car schemes, share schemes, mortgage subsidies etc. Hatice (2000) made an analysis of reward components which refer to individual growth, compelling future, total pay and positive workplaces. They hold that people work for more than just pay, they are also looking for an organization which has a powerful vision of where it is going and how it plans to get there, and they want to get individual growth in acquiring skills that prepare them to add value to the business. Thus, combinations of base pay, variable pay, recognition and celebration and benefits are essential to providing a complete total reward package.

Perry, Mesch & Paarberg (2006) indicate that reward strategy is the best foundation of pay for performance. They define reward strategy to include following: base salary, variable pay (containing short-term incentives and long-term incentives), other compensation, perquisites, benefits and performance management. Moreover, a total strategy may also include training, career development, coaching and other employee-related policies.

Another study carried out, which is of importance to this research, is that of Brooks (2013) who investigate the correlation between various workers' attitudes and job motivation and performance using 290 skilled and semi-skilled male and female paper workers. The study reveals that highly involved employees who were more intrinsically oriented towards their job did not manifest satisfaction commensurate with company evaluations of performance. They depended more on intrinsic rewards as compared to those who were more extrinsic in orientation.

Ali and Ahmad (2009) also investigates that there is positive relationship between "recognition and reward", "performance". They stated that if reward and recognition are given to employees, then there is a huge change in their employees' performance. The study conducted to check the relationship between rewards and employee's performance schools of Pakistan. They use these variables such as employees' performance, job description, extrinsic reward, intrinsic reward, gender discrimination, and environment; recondition techniques, and performance bonus.

Sousa-poza (2000) suggested that the concept of total compensation which he considered as "new new pay" be expressed in terms of an equation with ten variables. $TC = (BP + AP + IP) + (WP + PP) + (OA + OG) + (PI + QL) + X$, where TC = total compensation; BP = base pay, or salary; AP = augmented

pay, that is, any one-time payment, even if received at regular intervals; IP = indirect pay; WP = works-pay, that is, employer-subsidized equipment, uniforms, and so on; PP = perks-pay, that is, special benefits—anything from accessories to employee discounts on company products; OA = opportunity for advancement and increased responsibility; OG = opportunity for growth, both through on-the-job training and through off-site training and degree attainment; PI = psychic income, the emotional enhancements provided by the job itself and the setting; QL = quality of life, that is, opportunity to express other important aspects of life; X = any unique element that an employee wants that the workplace can facilitate.

In addition as pointed out by Sousa-poza (2000) in 2001, the Total Rewards Association introduced a relatively new framework of total rewards in order to explain the concept of total rewards more clearly. There are three elements in this framework: compensation, benefits and work experience (including recognition, work/life balance, company culture, employee development and environment are involved in this element). However, he further explained that Worldatwork afterwards thought that “the work experience” aspect of the model put forward in 2001 included aspects of employment that might be some components of the overall working experience.

In 2005, the World at work Public Policy Staff excogitated another more specific outline of total reward which contained four elements: pay (base salary, variable pay, recognition and stock are included), benefits (health care, retirement, savings and time off are included), learning & development (career development, performance management, succession planning and training are included), work environment (organization climate, leadership, performance support and work/life balance are included). As what has been mentioned, nowadays people do not work simply for pay, they also want to get chances for individual development through which they're able to obtain new knowledge and apply their own talent and valuable skills. As well, the compelling future and positive workplace may be other facets employees are pursuing (Ong & The, 2012).

Another sample total reward strategy framework, which was built by JLARC/Commonwealth of Virginia in 2008, contains three main segments that are compensation, benefits (health) and work/life environment. Specifically, rewards provide competitive base salary levels necessary to attract and retain talent and compensates for day-to-day responsibilities performed at fully acceptable level and above; Benefits provides flexible and market competitive health benefits to support employment brand and support attraction and retention; And work/life environment provides elastic work practices, telecommuting and support to promote the appropriate balance of productivity and employee engagement. Furthermore, Commonwealth also suggested options to consider, for example, base pay, total cash compensation, benefits, retirement and work/life etc. (Ong & The, 2012).

Methodology

This study will be based on descriptive design which is concern with the descriptions of certain dimensions or aspect of the variables and subject. The population is judgmental which comprises of 92 staff comprises meddle and lower staff of the bank under study. Multistage sampling technique was used to select 44 among the identified status staff that were concerted to the needed information for the study.

Data was collected through self-administered questionnaires distributed personally to the subjects by the researcher. The questionnaire is developed based on the research hypothesis. The aim of questionnaire is to capture the data and information required to establish the parameters of the model, the relationship between the independent and dependent variables and to evaluate the final model. The response to each of the questions in the questionnaire was represented, analyze and was used to test the formulated hypothesis using simple linear regression statistical method of data analysis.

Model Specification

The fitted independent $Y = a + bx$ is given as:

Where:

- X is the independent variable
- Y is the dependent variable
- a and b are intercepts and the slope respectively.

Data Analysis and Interpretation

Data was collected, presented, analyzed and interpreted on areas of gender, age, employment status, length of service and questions pertaining to the impact of reward system on employees’ productivity and corporate efficiency of employees.

Testing of Hypothesis:

H₀: Reward system does not have any impact on employees’ productivity.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.124 ^a	.015	.007	2.36722

a. Predictors: (Constant), Reward System

Source: The Study’s Survey, 2021

In the above, $R^2 = 0.015$ indicates that about 1.5 % of the variability in employees productivity is being explained by reward system. $R^2 = 0.015$ which is not up to the P value of 0.05, which indicate that Reward system have impact on employees' productivity.

ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	10.352	1	10.352	1.847	.177 ^a
Residual	661.240	118	5.604		
Total	671.592	119			

a. Predictors: (Constant), Reward System

b. Dependent Variable: Employees productivity

Source: The Study's Survey, 2021

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.788	.156		5.064	.000
Reward System	.826	.036	.830	22.959	.000

a. Dependent Variable: Employees Productivity

Source: SPSS Printout, 2021.

This result reveals the coefficient values of reward, with a constant value of 0.788 which implies that there will always be 0.788 units of change reward system. Equally, a unit change in reward system in 0.830 units in employee's productivity provided other variables remain constant with P value of 0.00 which is less than 0.05 which shows that it is significant.

Decision rule:

Since the F-calculated value of 15.979 is less than F critical and P value of 0.00 is less than 0.05, the null hypothesis is rejected while the alternative hypothesis which states reward system has effect on employees' productivity is accepted.

Conclusion and Recommendations

The study examined effect of Reward system on employees' productivity through identifying some mediums of reward system which shows R^2 of 0.015 < P value of 0.05, which indicated effect of reward system for increase employees' productivity. The results in turn will influence reduction in employee turnover from an organisation and encourages good performance especially in the banking services. Result of findings also reveals the

coefficient values of reward, with a constant value of 0.788 which implies that there will always be 0.788 units of change reward system. It is intriguing to note not all employees understand the concept of total reward system with majority of them limiting their productive gauge to the extrinsic financial aspect of reward thus neglecting the intrinsic part of reward system of recognition, responsibilities and career advancement. Also, given the dissatisfaction of employees on the current system of reward, it is instrumental for management to curb the tide. When employees are not happy with their reward, it instigates negative impact on both their efficiency and effectiveness. For managers to get the best out of their employees they must understand the needs of employees and what motivates them in order to design a system that create employees' satisfaction. This will mean a continuous motivational package being put in place to make the work more challenging and enable employees give off their best that will ensure organization accomplish their goals.

Recommendations

Based on the findings of the hypothesis, we recommend as follows:

- i. Understanding of reward by employees is sacrosanct and the right of all employees in determining their position and what is required of them, this is based on findings of employees who do not understand what reward system is. The human resources department should ensure all employees are made aware of the reward components in their employment contract and terms and condition. This will give the employee a better understanding of his/her value to the organization.
- ii. The organizations' reward packages should be linked to productivity, employee satisfaction and motivation. Employees' opinion should be sought by management through surveys in order to design a good reward package for the various levels of jobs in the organization.
- iii. The total reward mix should not be limited to monetary aspect only which is the most desired by employees but management should ensure the intrinsic value is met through recognition, praise, career development and advancement with much responsibility which gives the employee a sense of purpose in organization participation and contribution.
- iv. Reward system should be based on employees' performance and efficiency and not nepotism or favoritism as it will be demotivating for employees who put much effort without corresponding response from management in terms of recognition and promotion.

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