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Reward management: linking employee motivation and organizational performance

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Reward management: linking employee motivation and organizational performance

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Despite unambiguous meta-analytic findings on the effectiveness of rewards, research analyzing the mediating processes and specific conditions under which financial and non-financial rewards link employee motivation and performance is still scarce in personnel psychology. This introduction describes why more research on research on reward contingencies, alternative reward mechanisms, and alternative reward designs are needed. It also provides an overview of the papers in this issue and their contribution to closing this gap. Finally, avenues for further research are suggested.

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Companies invest enormous financial resources in reward systems and practices to attract, retain and motivate employees and thereby to ensure and improve individual, team and organizational effectiveness. Organizational rewards comprise financial and non-financial rewards, such as appreciation, job security and promotion. Financial rewards, also called tangible rewards, include

direct forms such as fixed and variable pay, and share ownership, as well as indirect and/or deferred forms such as benefits and perquisites. Fixed or base pay refers to the amount of money one receives in return for fulfilling ones' job requirements, the job's grade, or the skill or competence level required to perform the tasks. Variable pay, such as cash bonuses, and commissions as forms of short term incentives, or stocks or stock options as forms of long term incentives, depend for example on individual, team, and/or company performance or outcomes, and are based on quantitative and/or qualitative criteria. Benefits, such as pension plans or health programs, and perquisites, such as onsite fitness centers, medical care or health facilities, and company cars, among other forms, are indirect financial rewards (Milkovich, Newman, & Gerhart, 2016). Both qualitative reviews (Gerhart & Fang, 2014; Shaw & Gupta, 2015) and meta-analytic studies (Cerasoli, Nicklin, & Ford, 2014; Garbers and Konradt, 2014; Jenkins, Mitra, Gupta & Shaw, 1998) have shown that extrinsic rewards, such as financial incentives can improve employee motivation and performance, and shape employee health (Giles et al., 2014) and safety behavior (Mattson, Torbiörn, & Hellgren, 2014). However, the empirical evidence regarding under which conditions, particular rewards are most effective or lead to unintended consequences is still scarce. In short, compensation and incentive systems remain one of the most under-researched research areas in personnel psychology and human resource management (Gupta & Shaw 2015).

This state of affairs poses risks. Reward management approaches may waste both money and effort, and may be ineffective in attracting, retaining and motivating target personnel, if not grounded in a base of evidence. Added to this, in the face of the past financial crisis and of serious cases of employee and company unethical behavior, the company financial incentives, especially bonus and pay-for-performance (pfp) systems, have been widely criticized for their detrimental effects for individuals, companies and society (Larcker, Ormazabal, Tayan, & Taylor, 2014). These examples of the dark sides of incentives highlight the importance of reward management research, from a HRM but also from a societal perspective. They also illustrate the need to understand the underlying mediating and moderating mechanisms linking reward systems and practices to individual, team and organizational behavior and outcomes. This special issue contributes to the

research on reward management by focusing on the contextual effects of financial rewards on employee motivation, behavior and performance, and by analyzing the mediating mechanisms of different types of financial and non-financial rewards.

The four studies included in this special issue address different issues of reward management research and take different theoretical perspectives. The first two studies analyze the interaction effects of financial incentives and individual factors, such as employee perceptions of distributive justice, and then how individual competitiveness moderates the effects of pay-for-performance (pfp) on employee motivation, behavior and performance. These studies show what and how intended or unintended consequences of pfp occur. The other two studies differentiate the effects of tangible and intangible rewards on employee turnover and risk taking; they disentangle underlying mediating and moderating mechanisms by comparing the effects of benefits and perquisites, and of esteem, security and promotion as non-financial rewards. In the following passages, we present a short overview of these four papers before we discuss their contribution and their implications for further research.

One of the most discussed unintended consequences of financial rewards has been the assumed erosion of intrinsic motivation, also called the crowding-out or undermining effect of extrinsic incentives. This effect is suggested by proponents of cognitive evaluation theory and is primarily based on findings in non-work settings or with child samples, or in situations where rewards have been suspended without explanation (e.g., Deci, Koestner, & Ryan, 1999; Weibel, Rost, & Osterloh, 2010). In contrast, the findings of primary and meta-analytic studies typically do not show a crowding-out effect of extrinsic incentives (Gerhart & Fang, 2014), and rather demonstrate that intrinsic motivation increases in the presence of financial incentives (Giles et al., 2014). As a consequence, research has started to reconcile these conflicting findings with the assumptions of cognitive evaluation and self-determination theories. Thibault Landry, Gagné, Forest, Guerrero, Séguin and Papachristopoulous contribute to this research by analyzing whether financial incentive systems can satisfy employees' need for autonomy and competence, when bonuses are fairly distributed thus strengthening autonomy and motivation, and finally improve work performance.

They conducted three field studies: one cross-sectional field study in Greece using a diverse sample of professions, and two longitudinal studies in Canada with samples of high-tech workers and financial advisors who received performance contingent annual bonuses. Findings of all three studies show that distributive justice moderates the relationship between financial incentives and autonomy need satisfaction. In two of three studies distributive justice moderates also the relation between financial incentives and competence need satisfaction. Enhancing and buffering effects of distributive justice on the relation between financial incentives and need satisfaction vary across studies depending on the positive or negative relationship between financial incentives and competence and autonomy need satisfaction. By and large, study findings support the hypothesis that financial incentive systems can satisfy employees' need for autonomy and competence, when bonuses are fairly distributed. In these cases, bonuses strengthen autonomous motivation, and ultimately improve work performance. Thus, compensation plans using financial incentives such as annual bonuses can be effective, when rewards are distributed fairly. However, the varying positive or negative relation between financial incentives and need satisfaction across studies also indicates that other variables might influence how financial incentives are perceived.

Another often discussed potential unintended effect of financial incentives has been that individual pfp decreases cooperation and might even increase deviant behavior, such as harming others or sabotage (Gerhart & Fang, 2014). Gläser, van Gils and Van Quaquebeke contribute to this debate and show with varying study designs that the degree of individual trait and state competitiveness can influence how employees perceive pfp and react to it with deviant behavior. Their results are based on three studies. In the first cross-sectional study employees from different German organizations receiving performance contingent annual lump-sum bonuses participated online. Then, two online experiments were done with participants from digital panel studies and Amazon Mechanical Turk taking part in competitive dice games, where in study one only the winner was rewarded, while in study two everybody could win the bonus. Their findings indicate that pfp programs can increase employees' interpersonal deviance, i.e., active harming behavior towards coworkers, when employees are high in individual competitiveness, i.e., have a strong desire for

interpersonal comparison and wish to be better than others. No significant relationship between pfp size and interpersonal deviance was found for participants low in trait or state 'competitiveness'.

While the first two studies in this journal focus on moderating effects of pfp, the next two studies address the differential effects and mediating mechanisms of indirect forms of pay and of non-financial incentives on turnover and risk-taking. Particularly, in highly competitive labor markets, such as the information and communications technology (ICT) sector, companies do not only offer attractive salaries, but also benefits, such as pension and private medical insurance plans, and more recently even perquisites, such as an onsite fitness center, medical care facilities or paid meals, to make employees feel they are valued. In turn, this is assumed to lead to a better retention of key employees and a reduction of unwanted turnover (Fortune, 2016). These indirect forms of pay can be quite costly, and research on the comparative effects of benefits and perquisites on turnover is still scarce. Renaud, Morin and Béchard contribute to this topic by comparing the longitudinal impact of perquisites and traditional benefit packages on the intention to stay and by analyzing the mediating role of affective organizational commitment. In a longitudinal online study with three points of measurement (after being 6, 12 and 18 month in the company), new employees of a Canadian company in the ICT sector reported their satisfaction with the provided perquisites and benefits, their affective organizational commitment and their intention to stay, as an indicator of employee turnover. Study findings indicate that satisfaction with traditional benefits has a stronger direct impact on intention to stay than satisfaction with perquisites. Furthermore, when benefits and perquisites are analyzed separately, affective organizational commitment partially mediates the effect of satisfaction with traditional benefits on the intention to stay, while it fully mediates the effect of satisfaction with perquisites on intention to stay.

Business scandals (e.g., the Enron scandal and bankruptcy in 2001, the bankruptcy of Lehman Brothers in 2008, which triggered the global financial crisis) have moved ethical and financial risk taking of employees and managers and effects of incentives to the fore into both academic and public debates. Risk management research has shown that age and financial and ethical risk taking are related. Ceschi, Costantini, Dickert, and Sartori contribute to this by analyzing whether perceived

non-financial rewards moderate and mediate this relationship. They compare the moderating effects of esteem, security and promotion rewards on the relationship between age and financial and ethical risk taking among managers of Italian companies. They show that age and risk taking are negatively related, i.e., young managers report taking more financial and ethical risks than senior managers. Moderation analyses indicate an interaction effect of job promotion rewards and age: low chances for job promotion seem to be a key factor for young managers' decisions to take financial risks, whereas no relation between age and risk taking was found when high chances of job promotion were perceived. Findings also indicate that job security and promotions partially mediate the relationship between age and ethical risk taking.

In sum, the findings presented in this special issue provide at least four contributions to our understanding of the moderating conditions and mediating processes of the impact of financial and non-financial rewards on employee motivation, behavior and performance. First, distributive justice perceptions can moderate the effects of financial rewards. When performance-contingent annual bonuses are perceived as distributed fairly, they can satisfy employees' need for autonomy and competence, and thus strengthen autonomous motivation and, in turn, work performance. Identifying these moderating and mediating processes add to our understanding, of why crowding-out effects of extrinsic rewards do not occur. They also clarify the validity of the assumptions of cognitive evaluation and self-determination theories. Second, competitiveness as an individual characteristic can influence how employees perceive and react to pfp with deviant behavior. When employees have a strong desire for interpersonal comparison and wish to be better than others, i.e., are highly competitive, pfp programs can increase employees' interpersonal deviance, i.e., active harming behavior towards coworkers.

Third, companies can achieve a stronger effect on intention to stay with offering benefits (e.g., private medical insurance plans) than perquisites (e.g., as onsite medical care facilities). Employees' satisfaction with benefits seem to increase their intention to stay both directly and indirectly via enhancing affective organizational commitment, whereas satisfaction with perquisites seems to have only an indirect effect via commitment. Fourth, young managers report more financial

and ethical risk taking than senior managers. Young managers' financial risk taking seems to depend on their perceived chances of job promotion, as no relation between age and risk taking was found when high chances of job promotion were perceived.

We hope that this special issue stimulates further longitudinal, mixed-methods and multi-level research to compare the effects of specific reward types and practices on employee motivation, and on individual, team and organizational outcomes. There is a need to analyze the underlying mediating mechanisms and to identify individual, team or organizational level variables moderating these relationships. The four studies in this issue could address only a few of the open research questions highlighted in our call for papers, and other issues could be added. Furthermore, the studies in this issue focus only on the individual level of analysis. Questions on how team or organizational level variables, such as work structure, leadership behavior, organizational culture and corporate strategy influence the relationship between specific reward types or combinations of different reward types and reward outcomes are open for further research. Thus, future research has the challenge to address multi- and cross-level effects of organizational rewards and individual, team and organizational level contingencies. Until now, empirically based multi-level reward management research has been the exception (e. g., Trevor & Wazeter, 2006). However, recent conceptual papers on multi-level approaches to the effects of pay variation (Conroy, Gupta, Shaw, & Park, 2014) or team pay-for-performance (Conroy & Gupta, 2016) offer promising models to guide subsequent empirical investigations.

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