

Role of Reward Strategies in Performance Management System of an Organization

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Abstract: Performance management is an important organizational tool to clarify performance objectives, standards, critical dimensions and competencies to enhance individual performance. Reward is the foundation for motivational behavior of employees and it is highly critical in management of employee performance. Reward management is cardinal for success of performance management and has unlimited potential in motivating employees to give their best performance. Reward based performance management strategy is a comprehensive principle which is evolved historically. Reward as a strategy of performance management includes all three; financial, non financial rewards and psychological rewards. Managing reward and leveraging it as a performance management strategy requires a holistic approach and professional acumen. Reward management encourages healthy competition and collaboration among employees to perform well. It leads to innovation in the pursuit of reward achievement. This is where reward system is the important element in performance management system. Present paper is an attempt to envisage the role of reward strategies in performance management system.

Key words: Reward Management, motivation, performance management, employee behavior

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I. Introduction

Employees are the backbone of any organization. Organizational growth and sustainability highly depend on the quality of performance of the employees. Performance management system, therefore, must objectively link the individual level performance of employees with the overall performance of the organization. (Dipak Kumar Bhattacharyya, 2011). Performance means the degree or extent which an employee applies his skill, knowledge and efforts to a job assigned to him/her and the result of the application. Performance management is an important organizational tool to clarify performance objectives, standards, critical dimensions and competencies to enhance individual performance. It works best when people's work is planned and goals for achievement are communicated. So every employee is well aware of the work and performance expected of him. Reward is the most important vehicle of performance management. Majority of the organizations, therefore embrace the system of performance-linked compensation for its obvious strategic dimensions. It aims to facilitate compensation cost optimization, as non performers do not required to be paid like the performers. Performance-linked compensation system motivates good performing employees and increases the retention of talents.

Performance Management

Performance management has assumed a pivotal role in the rapid changes such as globalization, liberalization, technological and market changes. It is the backbone of human resource management for any organization intending to produce a high performance and leverage its human capital. (Srinivas R Kandula, 2009). The concept of performance management has been the most important development in the history of HR management in recent times, although the term was used for the first time in 1976 by Beer and Ruh. But it was recognized as a distinctive approach only on 1980's. (A.S Kohli and Deb T.2008). During the transitions, many performance management systems were developed. It include Performance Pyramid (Cross&Lynch 1991), Balanced Scorecard (Kaplan&Norton 1992), Fletcher (1993) pointed out the importance of performance appraisal systems and the Performance Prism (Neely,A 2000).

Performance management is a multidimensional concept and includes inputs, processes, outputs and outcomes. It is seen as crucial process that helps the organization focus on what each employee and team needs to contribute. (Dipak Kumar Bhattacharyya, 2011). According to Ronnie Malcom 2007 performance management may be defined as a planned and systematic approach to managing the performance of individuals ensuring their personal development and contribution towards organizational goals. Roger Davis 2004 defined that Performance management is a joint process which involves both supervisor and employee in identifying common goals resulting in the establishment of written performance expectations later used as measures for

feedback and for performance evaluation. According to Muel Mendonca and R.N Kanungo 1990 Performance management refers to the process of setting and communicating performance targets, defining evaluate criteria to be employed at different levels of performance, monitoring performance, reviewing performance, providing feedback, and taking corrective measures to remove performance snags.

Performance Management System

Performance management system refers to the set of organizational, managerial, team and individual metrics used to attain the aims and objectives of performance management. The important reason for setting up a PMS is the objectives of becoming better. This idea was supported by Dumond (1994), who stated that performance measures to be established to support the achievement of goals with the intent to motivate, guide, and improve an individual's decision making. Core elements of Performance management system include Organizational Objectives and Strategy, Organization's ultimate goal and Organization's competitive position. Performance management system provides a clear basis for objective assessment of reward strategy and its administration. Reward is administered after the performance occurs.

The aim of performance management systems is to support organizations to define a set of measures that reflect their objectives and assess their performance accordingly. Present competitive business scenario demands increased productivity, higher quality, shortened response time and lower costs. Corporate leaders are searching for the ultimate answer. Ever-increasing rates of change and competition has put immense pressures on organizations to continually explore novel ground and do more with less. (Herman Aguinis,2014). Today organizations create a competitive edge by implementing the right mix of strategy, people and business processes. It is critical for organizations to ensure that their HR policies and practices are competent and continuous improvement. Performance management system transforms organizational objectives and strategies into a measurable action plan by getting the right information to and from the right men at the right time and in the right format. It enables employee to perform better and to understand their roles and responsibilities.

Reward Strategies

The benefit, achievement and advancements received by employees for their job performance is known as reward. Rewards for productive work have always been considered prime motivators of individual efforts and achievements. Any change in rewards can have a major impact upon employee motivation, commitment, and performance, which directly affect the competitive level of organization. Linkage of organizational strategy, reward management and performance could be found in several research studies (Balkin and Gomaz-Mejia, 1987; Hambrick and Snow, 1989;Lawler,1986;Ulrick and Lake,1009;Waldman,1994;Zingheim and Schuster,2000,etc.). All these studies suggested reward management must be selected in conformity with the organizational strategy. Reward is a proven and established means of stimulating employees to perform exceedingly well. Reward has the capacity to perform the role of a medium. One of the major functions of performance management systems is to design suitable reward systems, relating reward to employees' performance.

Reward Management

Reward management refers to the process of formulating, implementing, maintenance and communication of singly well strategies with the purpose of rewarding people fairly, equitably, and consistently in accordance with their relative contribution to the organization to enable the organization to achieve its objectives. Armstrong & Murlis 2005 defined that reward management is about the development, implementation, maintenance, communication, and evaluation of reward process. These processes deal with the assessment of relative job values, the design and management of pay structures, performance management, paying for performance, competence or skill, the provision of employee benefits and pensions, and management of reward procedures. Matching the reward strategies with the level of performance to each job assigned in an organization is termed as reward management. To attain the effective reward management, an organization seeks a comprehensive reward system.

Reward System

A reward system is the set of mechanisms for distributing both tangible and intangible returns are allocated based on performance. A reward system has constituted with; (A.S.Kohli & T.DeB,2016)

- *Financial reward:* It includes the direct monetary rewards encompassing the payment of cash compensation to employees for work accomplished. Examples are salary, wages, incentives, commission, etc.
- *Non-financial reward:* Non-financial rewards are indirect monetary rewards and include those items of financial values provides to employees that do not result directly in employee's receiving spendable

cash. Examples are medical insurance, life insurance, subsidized canteen, subsidized transport, free uniform etc.

- *Psychological reward*: It form of reward includes opportunities to perform meaningful work, social interactions with others in the workplace, job training, career advancement, recognition, employer brand and host of similar factors.

Organizational reward systems should be so designed that it can motivate employee performance in line with its strategy and at the same time can attract and retain talents, who can truly contribute to the achievement of strategic intents (Galbraith,1973; Kilmann,1989; Nadler and Tushman, 1988). The organization must exert efforts to manage other strategies of performance management though canons of reward strategy. Reward system including compensation must be managed based on the performance of employees. Pay for performance systems which determine pay decisions based on defined performance levels. (Bhattacharyya, DK.(2007). Compensation systems are the primary mechanisms that organizations use to influence employee behavior. It contributes to the overall success of the organization in several ways. To be effective, the managers must appreciate the value of competitive pay, their human resources, and have an investment view of compensation costs. It is essential to maintain pay levels that attract and retain quality employees. Nevertheless, reward systems play a pivotal role in driving business strategy and organizational culture.

Reward strategies in performance management system

Employee involvement, participation and empowerment studies establish that performance excellence can come from employees who are totally involved with organizational culture. This involvement can be obtained only by creating opportunities for employees to involve themselves in organizational management. Reward is one potential source that can be effectively tapped for creating these avenues of total involvement. Infact, the reward system when managed well creates a perception of security. It also creates an assurance in the minds of employees that here right and wrong are easily distinguished. Therefore, reward as a factor of employee involvement has a pivotal role in policy and practice of performance management.(Srinivas R.Kandula,2009).

Most organizations, the cost associated their HR comprises the largest item of annual expenditure. Lining reward to performance also potentially induces equity and consistency in the reward structure. It enables the organization to attract and retain talents, given the current trends towards job hopping in search of better rewards. (Deb.T 2008). This is where reward system is the important element in performance management system. Reward management has attracted increased attention in recent years because reward systems are expensive. Indeed, pay alone may represent over 50 percent of an organization's operating cost.

The reward strategy describes how an organization will use reward policies, practices and process to support the delivery of its business strategy. With in it, every reward issue or initiative should be viewed through the prism of how it helps the business. While the reward strategy has support the overall business strategy, it likely to be explicitly link to the performance management strategies. It is integrated to HR strategy because it mutually supports of other areas like talent management, performance management. The trend in reward strategy has changed drastically in the last few years. It has moved from a structured system to a customized system. Effective alignment reward strategy and business strategy can change behaviors, focus decisions and help human resource fulfill its role as a strategic business partner. Thus, a congruency between the reward system, individual employees, organizational characteristics and environment increases in performance. Therefore, performance linked reward systems need to be formulated and firmly footed to the overall business strategy of an organization by (A.S Kohli 2008)

1. Recognizing individual contributions by rewarding key performers.
2. Developing performance-oriented compensation procedures that are appropriate for different levels and classes is an organization.
3. Designing a competent reward plan that motivates key performers to make decisions that are in the best interest of the organization

Thus, organizations have to judiciously combine cash and kind for rewarding good performance management system. Without increasing performance, the organizations will not survive in this global economy. Therefore, the essence to reward lies in appreciating 'total man concept' that is, economic, social and self fulfilling needs should be taken into consideration. Adequate balance must be maintained between compensation increases and intrinsic rewards.(Halachmi,A.2005). So that employees find performance management as a tool and technique of meeting self-esteem needs, more than fulfilling monetary needs. Competency at employee level must be aligned with reward and vice-versa. Reward has the potential to motivate employees to sharpen their competency levels in line with changing technology, markets and internal organizational reality.

Implications of performance management on organizational reward strategies

Present scenario of knowledge-based competitive environment, organizations is mobilizing and motivates their human resource's latent entrepreneurial talent, encourage them to bring forward innovative ideas, and then see them through to launch. A key element of this is the combination of personal risk and reward system. Performance – based reward system tends to put performance of the employees in the forefront of organizational success, growth and development.

Progressive organizations understand that it is the quality, competence, commitment and congruence of its employees which can put the organization on a growth path. Similarly, talented employees understand that their contributions will make the organizations move forward direction. The more they contribute; the better will be the bottom line of the organization. Under performers also get the message that with scaling up of their performance they can earn more. In this process, the emphasis made on desired performance-related behavior from the employees. (DeNisi, A.S & Kluger, A.N.2000). Therefore, the success and failure of an organization deeply related to its human resources is a reciprocal and complementary relationship. Hence, linking reward system to performance management is crucial to the success of organizations. Performance management is the only reliable tool available to managers for effectively translating business strategies into organizational performance. Therefore, reward –based performance management must comprise all the reward varieties and apply them to employees, depending upon their motivational profile.

II. Conclusion

Performance management is a strategic process because it is a forward looking and development oriented. Reward is absolutely a dynamic issue and ought to be managed in both perceptual and realistic sense. Reward can be used as a strategic tool for institutionalization of performance management. Reward management policies of the organizations are aligned with the strategic and operational actions for dual objectives to optimize the cost of compensation and to motivate the good performers. A good reward system can be deployed as a nerve centre for performance management. Undoubtedly, effectiveness of performance management system is largely subject to effectiveness of reward strategies of an organization.

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