

Journal of Personnel Psychology

Reward management: linking employee motivation and organizational performance --Manuscript Draft--

| | |
|--|---|
| Manuscript Number: | |
| Full Title: | Reward management: linking employee motivation and organizational performance |
| Short Title: | Reward management |
| Article Type: | Original Article |
| Keywords: | Reward management, compensation, financial incentives, pay-for-performance, employee benefits |
| Corresponding Author: | Conny Antoni University of Trier Trier, GERMANY |
| Corresponding Author Secondary Information: | |
| Corresponding Author's Institution: | University of Trier |
| Corresponding Author's Secondary Institution: | |
| First Author: | Conny Antoni |
| First Author Secondary Information: | |
| Order of Authors: | Conny Antoni Xavier Baeten, Prof. Dr. Stephen J. Perkins, Prof. Dr. Jason D. Shaw, Prof. Dr. Matti Vartiainen, Prof. Dr. |
| Order of Authors Secondary Information: | |
| Author Comments: | Introduction to the special issue: Reward management: linking employee motivation and organizational performance |
| Abstract: | 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. |
| Suggested Reviewers: | |
| Opposed Reviewers: | |
| Additional Information: | |
| Question | Response |
| Has this manuscript been submitted previously to this journal? | No |
| Has the manuscript or any component of it already been published or is currently under consideration by another journal? | No |
| Note: If a paper based, in whole or in part, on the present sample and/or data has already been published or is under | |

| | |
|---|------|
| consideration elsewhere, authors MUST reveal this and explain in their letter to the editor precisely how the paper contributes beyond previous submissions based on the same data. | |
| Does the research meet ethical guidelines, including adherence to the legal requirements of the study country? | Yes |
| Do the authors have any conflicts of interest? | No |
| State the word count of the manuscript including references but excluding tables and figures. | 2698 |
| Has the manuscript been prepared according to language and style recommendations of the Publication Manual of the American Psychological Association (6th ed.)? | Yes |
| Have you removed all references to author names and affiliations from the manuscript, tables, figures, and appendices to ensure an anonymous review process? | Yes |

Reward management: linking employee motivation and organizational performance

Conny H. Antoni^{1*}, Xavier Baeten², Stephen J. Perkins³, Jason D. Shaw⁴, Matti Vartiainen⁵

¹University of Trier, Germany, ²Vlerick Business School, Belgium, ³London Metropolitan University, UK, ⁴The Hong Kong Polytechnic University, ⁵Aalto University School of Science, Finland

*Corresponding author: Conny H. Antoni, University of Trier, Germany, antoni@uni-trier.de

Abstract

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.

Keywords: Reward management, compensation, financial incentives, pay-for-performance, employee benefits

Reward management: linking employee motivation and organizational performance

Conny H. Antoni^{1*}, Xavier Baeten², Stephen J. Perkins³, Jason D. Shaw⁴, Matti Vartiainen⁵

¹University of Trier, Germany, ²Vlerick Business School, Belgium, ³London Metropolitan University, UK, ⁴The Hong Kong Polytechnic University, ⁵Aalto University School of Science, Finland

*Corresponding author: Conny H. Antoni, University of Trier, Germany, antoni@uni-trier.de

Abstract

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.

Keywords: Reward management, compensation, financial incentives, pay-for-performance, employee benefits

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

1 direct forms such as fixed and variable pay, and share ownership, as well as indirect and/or deferred
2 forms such as benefits and perquisites. Fixed or base pay refers to the amount of money one
3 receives in return for fulfilling ones' job requirements, the job's grade, or the skill or competence
4 level required to perform the tasks. Variable pay, such as cash bonuses, and commissions as forms of
5 short term incentives, or stocks or stock options as forms of long term incentives, depend for
6 example on individual, team, and/or company performance or outcomes, and are based on
7 quantitative and/or qualitative criteria. Benefits, such as pension plans or health programs, and
8 perquisites, such as onsite fitness centers, medical care or health facilities, and company cars, among
9 other forms, are indirect financial rewards (Milkovich, Newman, & Gerhart, 2016). Both qualitative
10 reviews (Gerhart & Fang, 2014; Shaw & Gupta, 2015) and meta-analytic studies (Cerasoli, Nicklin, &
11 Ford, 2014; Garbers and Konradt, 2014; Jenkins, Mitra, Gupta & Shaw, 1998) have shown that
12 extrinsic rewards, such as financial incentives can improve employee motivation and performance,
13 and shape employee health (Giles et al., 2014) and safety behavior (Mattson, Torbiörn, & Hellgren,
14 2014). However, the empirical evidence regarding under which conditions, particular rewards are
15 most effective or lead to unintended consequences is still scarce. In short, compensation and
16 incentive systems remain one of the most under-researched research areas in personnel psychology
17 and human resource management (Gupta & Shaw 2015).

18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40 This state of affairs poses risks. Reward management approaches may waste both money
41 and effort, and may be ineffective in attracting, retaining and motivating target personnel, if not
42 grounded in a base of evidence. Added to this, in the face of the past financial crisis and of serious
43 cases of employee and company unethical behavior, the company financial incentives, especially
44 bonus and pay-for-performance (pfp) systems, have been widely criticized for their detrimental
45 effects for individuals, companies and society (Larcker, Ormazabal, Tayan, & Taylor, 2014). These
46 examples of the dark sides of incentives highlight the importance of reward management research,
47 from a HRM but also from a societal perspective. They also illustrate the need to understand the
48 underlying mediating and moderating mechanisms linking reward systems and practices to
49 individual, team and organizational behavior and outcomes. This special issue contributes to the
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65

1 research on reward management by focusing on the contextual effects of financial rewards on
2 employee motivation, behavior and performance, and by analyzing the mediating mechanisms of
3 different types of financial and non-financial rewards.
4
5

6
7 The four studies included in this special issue address different issues of reward management
8 research and take different theoretical perspectives. The first two studies analyze the interaction
9 effects of financial incentives and individual factors, such as employee perceptions of distributive
10 justice, and then how individual competitiveness moderates the effects of pay-for-performance (pfp)
11 on employee motivation, behavior and performance. These studies show what and how intended or
12 unintended consequences of pfp occur. The other two studies differentiate the effects of tangible
13 and intangible rewards on employee turnover and risk taking; they disentangle underlying mediating
14 and moderating mechanisms by comparing the effects of benefits and perquisites, and of esteem,
15 security and promotion as non-financial rewards. In the following passages, we present a short
16 overview of these four papers before we discuss their contribution and their implications for further
17 research.
18
19
20
21
22
23
24
25
26
27
28
29
30
31

32
33 One of the most discussed unintended consequences of financial rewards has been the
34 assumed erosion of intrinsic motivation, also called the crowding-out or undermining effect of
35 extrinsic incentives. This effect is suggested by proponents of cognitive evaluation theory and is
36 primarily based on findings in non-work settings or with child samples, or in situations where
37 rewards have been suspended without explanation (e.g., Deci, Koestner, & Ryan, 1999; Weibel, Rost,
38 & Osterloh, 2010). In contrast, the findings of primary and meta-analytic studies typically do not
39 show a crowding-out effect of extrinsic incentives (Gerhart & Fang, 2014), and rather demonstrate
40 that intrinsic motivation increases in the presence of financial incentives (Giles et al., 2014). As a
41 consequence, research has started to reconcile these conflicting findings with the assumptions of
42 cognitive evaluation and self-determination theories. Thibault Landry, Gagné, Forest, Guerrero,
43 Séguin and Papachristopoulous contribute to this research by analyzing whether financial incentive
44 systems can satisfy employees' need for autonomy and competence, when bonuses are fairly
45 distributed thus strengthening autonomy and motivation, and finally improve work performance.
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65

1 They conducted three field studies: one cross-sectional field study in Greece using a diverse sample
2 of professions, and two longitudinal studies in Canada with samples of high-tech workers and
3
4 financial advisors who received performance contingent annual bonuses. Findings of all three studies
5
6 show that distributive justice moderates the relationship between financial incentives and autonomy
7
8 need satisfaction. In two of three studies distributive justice moderates also the relation between
9
10 financial incentives and competence need satisfaction. Enhancing and buffering effects of
11
12 distributive justice on the relation between financial incentives and need satisfaction vary across
13
14 studies depending on the positive or negative relationship between financial incentives and
15
16 competence and autonomy need satisfaction. By and large, study findings support the hypothesis
17
18 that financial incentive systems can satisfy employees' need for autonomy and competence, when
19
20 bonuses are fairly distributed. In these cases, bonuses strengthen autonomous motivation, and
21
22 ultimately improve work performance. Thus, compensation plans using financial incentives such as
23
24 annual bonuses can be effective, when rewards are distributed fairly. However, the varying positive
25
26 or negative relation between financial incentives and need satisfaction across studies also indicates
27
28 that other variables might influence how financial incentives are perceived.
29
30
31
32
33
34

35 Another often discussed potential unintended effect of financial incentives has been that
36
37 individual pfp decreases cooperation and might even increase deviant behavior, such as harming
38
39 others or sabotage (Gerhart & Fang, 2014). Gläser, van Gils and Van Quaquebeke contribute to this
40
41 debate and show with varying study designs that the degree of individual trait and state
42
43 competitiveness can influence how employees perceive pfp and react to it with deviant behavior.
44
45 Their results are based on three studies. In the first cross-sectional study employees from different
46
47 German organizations receiving performance contingent annual lump-sum bonuses participated
48
49 online. Then, two online experiments were done with participants from digital panel studies and
50
51 Amazon Mechanical Turk taking part in competitive dice games, where in study one only the winner
52
53 was rewarded, while in study two everybody could win the bonus. Their findings indicate that pfp
54
55 programs can increase employees' interpersonal deviance, i.e., active harming behavior towards
56
57 coworkers, when employees are high in individual competitiveness, i.e., have a strong desire for
58
59
60
61
62
63
64
65

1
2 interpersonal comparison and wish to be better than others. No significant relationship between pfp
3 size and interpersonal deviance was found for participants low in trait or state 'competitiveness'.

4
5 While the first two studies in this journal focus on moderating effects of pfp, the next two
6 studies address the differential effects and mediating mechanisms of indirect forms of pay and of
7 non-financial incentives on turnover and risk-taking. Particularly, in highly competitive labor markets,
8 such as the information and communications technology (ICT) sector, companies do not only offer
9 attractive salaries, but also benefits, such as pension and private medical insurance plans, and more
10 recently even perquisites, such as an onsite fitness center, medical care facilities or paid meals, to
11 make employees feel they are valued. In turn, this is assumed to lead to a better retention of key
12 employees and a reduction of unwanted turnover (Fortune, 2016). These indirect forms of pay can
13 be quite costly, and research on the comparative effects of benefits and perquisites on turnover is
14 still scarce. Renaud, Morin and B  chard contribute to this topic by comparing the longitudinal impact
15 of perquisites and traditional benefit packages on the intention to stay and by analyzing the
16 mediating role of affective organizational commitment. In a longitudinal online study with three
17 points of measurement (after being 6, 12 and 18 month in the company), new employees of a
18 Canadian company in the ICT sector reported their satisfaction with the provided perquisites and
19 benefits, their affective organizational commitment and their intention to stay, as an indicator of
20 employee turnover. Study findings indicate that satisfaction with traditional benefits has a stronger
21 direct impact on intention to stay than satisfaction with perquisites. Furthermore, when benefits and
22 perquisites are analyzed separately, affective organizational commitment partially mediates the
23 effect of satisfaction with traditional benefits on the intention to stay, while it fully mediates the
24 effect of satisfaction with perquisites on intention to stay.

25
26 Business scandals (e.g., the Enron scandal and bankruptcy in 2001, the bankruptcy of Lehman
27 Brothers in 2008, which triggered the global financial crisis) have moved ethical and financial risk
28 taking of employees and managers and effects of incentives to the fore into both academic and
29 public debates. Risk management research has shown that age and financial and ethical risk taking
30 are related. Ceschi, Costantini, Dickert, and Sartori contribute to this by analyzing whether perceived

1 non-financial rewards moderate and mediate this relationship. They compare the moderating effects
2 of esteem, security and promotion rewards on the relationship between age and financial and ethical
3 risk taking among managers of Italian companies. They show that age and risk taking are negatively
4 related, i.e., young managers report taking more financial and ethical risks than senior managers.
5
6 Moderation analyses indicate an interaction effect of job promotion rewards and age: low chances
7 for job promotion seem to be a key factor for young managers' decisions to take financial risks,
8 whereas no relation between age and risk taking was found when high chances of job promotion
9 were perceived. Findings also indicate that job security and promotions partially mediate the
10 relationship between age and ethical risk taking.
11
12
13
14
15
16
17
18
19
20

21 In sum, the findings presented in this special issue provide at least four contributions to our
22 understanding of the moderating conditions and mediating processes of the impact of financial and
23 non-financial rewards on employee motivation, behavior and performance. First, distributive justice
24 perceptions can moderate the effects of financial rewards. When performance-contingent annual
25 bonuses are perceived as distributed fairly, they can satisfy employees' need for autonomy and
26 competence, and thus strengthen autonomous motivation and, in turn, work performance.
27 Identifying these moderating and mediating processes add to our understanding, of why crowding-
28 out effects of extrinsic rewards do not occur. They also clarify the validity of the assumptions of
29 cognitive evaluation and self-determination theories. Second, competitiveness as an individual
30 characteristic can influence how employees perceive and react to pfp with deviant behavior. When
31 employees have a strong desire for interpersonal comparison and wish to be better than others, i.e.,
32 are highly competitive, pfp programs can increase employees' interpersonal deviance, i.e., active
33 harming behavior towards coworkers.
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50

51 Third, companies can achieve a stronger effect on intention to stay with offering benefits
52 (e.g., private medical insurance plans) than perquisites (e.g., as onsite medical care facilities).
53 Employees' satisfaction with benefits seem to increase their intention to stay both directly and
54 indirectly via enhancing affective organizational commitment, whereas satisfaction with perquisites
55 seems to have only an indirect effect via commitment. Fourth, young managers report more financial
56
57
58
59
60
61
62
63
64
65

1 and ethical risk taking than senior managers. Young managers' financial risk taking seems to depend
2 on their perceived chances of job promotion, as no relation between age and risk taking was found
3
4 when high chances of job promotion were perceived.
5

6
7 We hope that this special issue stimulates further longitudinal, mixed-methods and multi-
8
9 level research to compare the effects of specific reward types and practices on employee motivation,
10
11 and on individual, team and organizational outcomes. There is a need to analyze the underlying
12
13 mediating mechanisms and to identify individual, team or organizational level variables moderating
14
15 these relationships. The four studies in this issue could address only a few of the open research
16
17 questions highlighted in our call for papers, and other issues could be added. Furthermore, the
18
19 studies in this issue focus only on the individual level of analysis. Questions on how team or
20
21 organizational level variables, such as work structure, leadership behavior, organizational culture and
22
23 corporate strategy influence the relationship between specific reward types or combinations of
24
25 different reward types and reward outcomes are open for further research. Thus, future research has
26
27 the challenge to address multi- and cross-level effects of organizational rewards and individual, team
28
29 and organizational level contingencies. Until now, empirically based multi-level reward management
30
31 research has been the exception (e. g., Trevor & Wazeter, 2006). However, recent conceptual papers
32
33 on multi-level approaches to the effects of pay variation (Conroy, Gupta, Shaw, & Park, 2014) or
34
35 team pay-for-performance (Conroy & Gupta, 2016) offer promising models to guide subsequent
36
37 empirical investigations.
38
39
40
41
42
43
44
45
46
47
48

49 **References**

- 50
51
52 Cerasoli, C.P., Nicklin, J.M., & Ford, M.T. (2014). 'Intrinsic motivation and extrinsic incentives jointly
53
54 predict performance: a 40-year meta-analysis'. *Psychological Bulletin*, 140(4), 980–1008.
55
56
57 Conroy, S. A., Gupta, N., Shaw, J. D., & Park, T. Y. (2014). A multilevel approach to the effects of pay
58
59 variation. *Research in Personnel and Human Resources Management*, 32, 1-64.
60
61
62
63
64
65

- 1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
- Conroy, S. A., & Gupta, N. (2016). Team pay-for-performance: The devil is in the details. *Group & Organization Management*, 41(1), 32-65.
- Deci, E. L., Koestner, R., & Ryan, R. M. (1999). A meta-analytic review of experiments examining the effects of extrinsic rewards on intrinsic motivation. *Psychological Bulletin*, 125, 627-668.
- Fortune (2016). *100 best companies to work for*. Retrieved from <http://fortune.com/best-companies/google-alphabet-1/>
- Garbers, Y., & Konradt, U. (2014). 'The effect of financial incentives on performance: a quantitative review of individual and team-based financial incentives'. *Journal of Occupational and Organizational Psychology*, 87(1), 102–137.
- Gerhart, B., & Fang, M. (2014). Pay for (individual) performance: Issues, claims, evidence and the role of sorting effects. *Human Resource Management Review*, 24(1), 41-52.
- Giles, E.L., Robalino, S., McColl, E., Sniehotta, F.F., & Adams, J. (2014). 'The effectiveness of financial incentives for health behaviour change: systematic review and meta-analysis'. *PLoS ONE*, 9(3), e90347
- Gupta, N., & Shaw, J. D. (2015). Employee compensation: The neglected area of HRM research. *Human Resource Management Review*, 24(1), 1-4.
- Jenkins Jr, G. D., Mitra, A., Gupta, N., & Shaw, J. D. (1998). Are financial incentives related to performance? A meta-analytic review of empirical research. *Journal of Applied Psychology*, 83(5), 777.
- Larcker, D. F., Ormazabal, G., Tayan, B., & Taylor, D. J. (2014). Follow the Money: Compensation, Risk, and the Financial Crisis (September 8, 2014). Rock Center for Corporate Governance at Stanford University Closer Look Series: Topics, Issues and Controversies in Corporate Governance No. CGRP-43; *Stanford University Graduate School of Business Research Paper No. 14-34*.
- Mattson, M., Torbiörn, I., & Hellgren, J. (2014). Effects of staff bonus systems on safety behaviors. *Human Resource Management Review*, 24(1), 17-30.
- Milkovich, G. Newman, J., & Gerhart, B. (2016). *Compensation* (12th Edition). New York: McGraw-Hill.

1 Shaw, J. D., & Gupta, N. (2015). Let the evidence speak again! Financial incentives are more effective
2 than we thought. *Human Resource Management Journal*, 25(3), 281-293.
3

4 Siegrist, J., Wege, N., Pühlhofer, F., & Wahrendorf, M. (2009). A short generic measure of work stress
5 in the era of globalization: effort–reward imbalance. *International Archives of Occupational and*
6 *Environmental Health*, 82, 1005-1013.
7
8
9

10 Weibel, A., Rost, K., & Osterloh, M. (2010). Pay for performance in the public sector -Benefits and
11 (hidden) costs. *Journal of Public Administration Research and Theory*, 20, 387-412.
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65