

# Driving Innovation: Reviewing the Role of Rewards

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## Abstract

The role of rewards in promoting innovation has received considerable attention in both theory and practice. The fact that rewards have a positive impact on promoting innovation is well established. However, this relationship is complex since different types of rewards are suited for various kinds and stages of innovation. Further, an alternate view undermines the role of rewards in promoting innovation. Through an exhaustive literature review, this study illustrates the complex relationship between rewards and innovation as well as the role of rewards in promoting innovation. This analysis throws light on the utility of various rewarding practices in promoting innovation. Thus, understanding the complexities of rewards systems for engaging talents in processes of creativity and innovation reflects the needs to design rewards systems, which strategically and ethically fits any organizational entity. Hence, both theorists and practitioners need a more holistic approach in designing a dynamic rewards system that encompasses issues of role, timing and magnitude of the rewards in order to drive innovation.

## Keywords

Rewards, Innovation, Creativity, Literature

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## 1. Introduction

Throughout the past and current decades, a plethora of research enlightens the relationship between rewards and innovation [1] [2] [3] [4]. Rewards are known to drive innovation [5]. Research explains that reward plays a significant role in the motivation of employees since it creates a certain degree of excitement among employees, thus leading to the development of innovation culture within the organization [6]. However, this relationship between rewards and innovation

is not a straightforward one. Considering that innovation varies in degree and types, this study highlights that various types of rewards impact on different types of innovation. Further, considering the existence of a profusion of rewards systems, this study through an exhaustive literature review, shows that different types of rewards are linked to various stages of innovation. Finally, the study draws the attention to the studies that are critical of the relationship between rewards and innovation. This study therefore informs researches and practitioners on the utility of various rewards and provides a holistic understanding of the complex relationship between rewards and innovation.

Two types of rewards are primarily argued to impact innovation. These include extrinsic rewards consisting of financial benefits and intrinsic rewards expressed through praise and recognition [7]. Even though both these rewarding practices are often used interchangeably, they are different procedures with different benefits. Each type of reward can affect the success of innovative programs within organizations and their ability to influence innovation remains a contentious issue [8]. On the other hand, the literature continues to debate on the usefulness of various rewards in promoting innovation in firms and question the impact of rewards on creativity and innovation [9] [10]. Specific works argue that rewards do not adequately benefit firms in promoting innovation. They contend that financial rewards particularly are inept in generating quality ideas and innovative outputs. To illustrate, researchers argued that percentage of ideas that result into innovation is an important indicator of innovation [11] [12]. A survey of literature showed that most of the innovation indicators relate to innovation outputs rather than ideation and developmental stages of innovation. Hence, financial rewards may be ineffective, if ideas do not have the potential to qualify as “go-to-market” category. The focus of such reward systems shifts the focus on financial benefits rather than quality inputs and hence compromises innovation quality [13].

There is existing literature which adequately explains the role of rewards and associated risks in managing and improving innovation portfolios of organizations [14]. Such contrasting arguments reflect three decades of studies that have yet to mature into a unified theory and practice on the impact of rewards on creativity and innovation [15]. Furthermore, there is divergence and eclipse in exploring the process of how the role of rewards could specifically induce individual creativity as well as establishing a strong connection between the two aspects [10]. Innovation starts with creativity and if creativity is missing innovation is difficult to witness [16] [17]. Researchers also argue whether creativity should be rewarded (mainly ideas) or innovation. Therefore, the literature continues to debate the role of rewards in promoting creativity and innovation. This study throws light on various perspectives related to various rewards and utility of rewards in promoting innovation. The intention is to inform future academic research and managerial practice for designing rewards for innovation. In doing so, the study has its limitations. The literature that informs this study has been

cited from different countries and cultures. A general observation of these studies does not provide a rich context to these rewarding practices, which can vary across countries and cultures. A second limitation of the study is that it looks only at various types of rewards and their relationship with innovation, which in practice may not explain the entirety of the observed phenomenon. A combination of factors along with rewards may promote innovation, which is not accounted in this study. Finally, considering the depth and breadth of research on the topic, only those literatures have been chosen that meet the objectives of the study and various other nuances in this relationship could not be accommodated in this study. The rest of the paper is organized as follows. The next section provides a detailed analysis of the complex relationship between rewards and innovation, followed by conclusions and implications of the study.

## 2. Literature Review

The literature linking rewards with innovation is in abundance. Since the focus of the study was to understand the complex relationship between rewards and innovation, only the literatures that highlight the utility of rewards or undermine this relationship were included in this study. Further, studies that explain the varied nature of rewards and link them various types and stages in innovation found representation in this study.

Innovation is a key competency that allows firms to achieve competitive advantage [18]. Innovation can be defined as the creation of value from ideas [19]. The process of innovation involves acquiring, disseminating and using new or the existing knowledge [20]. It starts with generation of ideas and subsequently entering innovation development process [21] [22]. It usually leads to the development of new products, services and improvement of processes [23]. Both the stages of creativity and innovation require contribution from employees and efforts that are not normally associated with routine jobs. Therefore, in order to develop individual initiatives from employees, rewards become important stimuli.

Financial rewards involve cash prizes that are offered to the employees to encourage their contribution towards innovation [4]. Financial rewards are usually offered in terms of a fixed sum of money or a specific percentage. They can sometimes be through profit sharing or a bonus program [24]. However, financial rewards can be problematic especially when considering the ability of an organization to sustain it over time [20]. Sustaining financial rewards for an organization over a long period may be challenging. Financial rewards may also stifle innovation culture in the organization as the participation that is based on personal gain [25]. [24] argues that non-financial incentives can create a significant impact on innovation. Designing rewards for innovation is also challenging as measurement of innovation itself is puzzling and most organizations struggle to develop a comprehensive innovation measurement process [12].

A reward is a vital part of the creation of a sustainable and innovation environ-

ment within the organization. The innovation process starts by encouraging communication and transparency between the employees and the management. This is a critical factor in building trust by encouraging employees to embrace innovation in the organization since it is vital for creating an open environment where employees can freely contribute their ideas without fearing anything hence enhancing the free flow of ideas [26]. Even though rewards are essential in keeping the employees motivated, it is the recognition of employees that creates a truly innovative culture [27]. [23] [28] also support the view that employees need to be rewarded so that a culture of creativity and innovation is built.

It is essential for organizations to keep in mind that only those employees who are contributing towards the anticipated outcomes need to be recognized and rewarded in the long run [29]. Another factor to consider is the size of the reward. In an organization, innovation tends to be a team-based practice. Offering individuals with substantial financial rewards could set them up against one another. It is vital for an organization to be cautious not to initiate rivalry within employees. It is crucial for the whole team that is pursuing innovation in the organization to be rewarded rather than rewarding individuals [29]. To achieve innovation within the organization, it is essential for the organization to base its reward system on performance [30]. Most managers, who run a fair system of reward, tend to achieve a high degree of innovation as opposed to those whose reward system is unfair. Rewarding an employee is a way of motivating them to be more innovative as a reward can cause satisfaction among the employees which have a direct effect on the performance of employees as far as innovation is concerned [31].

The literature on rewards for innovation has different views on the usefulness, practicality, nature, and size of rewards. **Table 1** depicts the diverse views of researchers on rewards and innovation.

### 3. Conclusion and Implications

The literature shows divergent views on rewards for innovation. Although there is a broader level of convergence that rewards are necessary for promoting innovation, the points of debate revolve around what and when should be innovation rewarded. Innovation is a long process and starts with ideas, developmental stages and result in innovation. Previous work trails the critical timing or stage of rewarding employees. Based on the discussion in the literature, it seems that innovation rewards programs become ineffective when only a particular stage of innovation is rewarded. Most common examples include the idea generation stage. Firms should not only design rewards systems for different stages of innovation, but also design different types of rewards for different stages of innovation. Further, the debate on what should be considered as rewards is closely linked to the question of when the efforts for innovation are critically needed. If firms design rewards for just the “efforts” of say generating ideas or developing prototypes, it will give the impetus to development of many alternatives, which

**Table 1.** Review of literature on the rewards, creativity and innovation.

Authors	Focus	Discussion	Interpretation
[32] [33] [34] [35] [36]	Theories underpinning rewards for innovation	Agency theory strategic human resources management. Rewards and various rewarding practices positively impact innovation. Both financial and non-financial rewards are recorded as positively impacting innovation. Primary among them are monetary incentives, promotion, and management recognition. Intrinsic and extrinsic rewards are interchangeably for monetary and non-monetary rewards.	There are various conceptual themes underpinning reward and innovation concepts. It is well documented through various researches on rewards that positively impact innovation. Although most of research agree why innovation should be awarded, they struggle to explain what should be rewarded as innovation is a multistage and complex process. Additionally, when should be innovation rewarded, is also an intriguing question among the scholars.
[5] [37]-[46]	Rewarding practices that promotes innovation	Employees abandon work on more challenging ideas and focus on lower risk incremental innovation to increase their chances of receiving monetary rewards. Evidences also suggest that it leads to a decreased innovation capacity. Both monetary and non-monetary rewards are linked to innovation, but are difficult to administer.	Reward is a double-edged sword. Although it has shown to be of benefit in situations like idea generation, its benefits are limited. Extrinsic and monetary rewards “crowd out” intrinsic parts. As a result, lower motivation for innovation. Rewards mean different things to different people and hence a recipe for rewarding innovation is difficult to prescribe. Employees can self-determine their reward choices. Rewards can be linked to innovation objectives, innovation stages, level of contribution and degree of innovation.
[12] [46]	Rewards inhibiting innovation	Some rewards systems are transparent, while others are translucent. Quantity of ideas is linked to non-monetary rewards. The quality of ideas is important since it is mostly linked to non-monetary rewards.	Although radical innovation is shown to have greater impact on customers, markets and competition, organizations can determine their innovation objectives. Incremental innovation and extrinsic rewards linked to it can be a genuine innovation objective.
[4] [47] [48]	Administration of monetary versus non-monitory rewards	Intrinsic reward is linked to radical innovation, whereas extrinsic reward is linked to incremental innovation and diminishing innovation speed. These research findings are linked to quality of ideas leading to radical innovation.	Innovation is a multistage process. It starts with creativity and ends with commercialization of the innovation outputs. Rewards linked to different stages helps to design meaningful rewards, according to the contributions made by employees.
[49]	Rewards linked to different types of innovation	Suppliers and distributors should be part of the reward system of innovation.	Innovation is not limited to only employees but external stakeholders bring new perspective to the organization and hence should be rewarded.
[50]	Rewards linked to different stages of innovation	Rewarding beliefs and cultural traits rather than innovation.	This stream of research believes that without a culture of creativity and innovation, rewards do not hold any meaning. In such scenarios innovation is just an event rather than sustainable.
[51]	Rewarding external stakeholder for innovation	Reward idea management as it is the core of innovation process.	Since ideas are the seed of innovation ideas should be rewarded. However, the issue with this argument is al ideas do not result in innovation and hence are we rewarding just the effort or the outcomes of those efforts.
[52]	Rewarding beliefs and cultural traits	Rewards are useful only for routine jobs and employees have no sense of control and ownership. Extrinsic reward programs given them a sense of ownership and being valued.	Rewards should be ideally linked to job design, which makes it consistent and integrated to work practices, rather than an occasional or external process.
[48]	Reward creativity or rewarding innovation	Highly motivated employees are not motivated by extrinsic rewards. Threat or reward appraisals do not work well with these employees. On the other hand, challenge appraisals are more meaningful to them.	Rewards are a stimulus. Creative and innovative urge exists in all, it is important to harness them. Rewards can be designed based on individual considerations.
[53]	Rewards linked to job design		
[53] [54]	Rewards linked to different personality types		

**Continued**

[5]	Degree of reward	Degree of reward determines the innovation. Bigger reward does not necessarily lead to more innovation. In fact, it reduces innovation.	High powered rewards may produce a flood of ideas but may not be of high quality. The focus shifts to rewards rather than quality of ideas.
[55] [56] [57] [58]	Rewards linked to subjective experiences	Employee's perceived degree of exposure to reward practices and the discrepancy in the interpretation of reward practices. Lower magnitude of relationship between reward and creativity and innovation reported.	Owing to the complexity of innovation and reward practices, there is variance reported in perception and interpretation of reward practices. This impact on the effectiveness of rewards and its ability to influence innovation.
[59]	New reward systems for innovation	Copyrights and patents as an appropriate reward for innovation	Such rewards enhance motivation and ownership to the employees.

is essential for innovation. The degree of reward should increase with the results of innovation. In doing so, the reward systems will clearly demarcate the degree of rewards between efforts and outcomes. The debate on the utility of extrinsic and intrinsic rewards is not yet resolved. Firms should design rewards in consultation with employees taking feedback on what types of rewards are more meaningful to them. Finally, the paradigmatic divide on the question of whether rewards promote or prohibit a culture of innovation also begs for further empirical research. In this perspective, the current and past works have yet to concretely examine and explore issues of ethics and organizational justice in determining the effectiveness of rewards within an ecosystem of innovation. The current literature has yet to answer this array of questions conclusively. This question has the biggest implications for firms. It is thus not just the responsibility of research community to answer this question, but firms should come forward and present evidence of what works and what does not. A closer interaction between researchers and firms is needed to answer this question. Until then, the proposition that rewards promote innovation holds true. Most earlier studies also banked on quantitative techniques which focus on finding a relationship between rewards and innovation. Identifying the right timing, the process, the right system and culture as well as the right talents to offer the rewards may require an in-depth qualitative work.

### Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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