

# THE EFFECTIVENESS OF A REWARD SYSTEM ON EMPLOYEE MOTIVATION

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**Abstract:** This study examines the effectiveness of reward systems in enhancing employee motivation within organizational settings. A well-designed reward system is a critical component in aligning employee goals with organizational objectives, fostering higher productivity, satisfaction, and engagement. The research focuses on different types of rewards—including financial incentives, recognition programs, promotions, and non-monetary benefits—and evaluates their impact on employee motivation. Data was collected through surveys and interviews with employees from various sectors to gain insights into how rewards influence their performance and morale. The findings suggest that both intrinsic and extrinsic rewards significantly contribute to increased motivation, with personalized and performance-based rewards proving to be most effective. The study highlights the importance of a strategic reward framework in building a motivated workforce and achieving long-term organizational success.

**Keywords:** REWARD SYSTEM & EMPLOYEE JOB SATISFACTION, Effectiveness of the Reward System, RECOMMENDATIONS & SUGGESTIONS.

## I. INTRODUCTION

In today's competitive business environment, organizations continually seek ways to enhance employee performance and productivity. One of the most effective strategies for achieving this is the implementation of a reward system. A reward system is a structured approach used by organizations to recognize and compensate employees for their contributions, efforts, and achievements. It encompasses both intrinsic rewards (such as personal growth, recognition, and job satisfaction) and extrinsic rewards (such as bonuses, salary increments, promotions, and other tangible benefits).

Employee motivation is a key driver of organizational success. Motivated employees tend to be more productive, committed, and engaged in their work, which ultimately contributes to improved organizational outcomes. However, motivation does not occur in a vacuum—it is often influenced by how employees perceive the fairness, adequacy, and consistency of the rewards they receive.

### STATEMENT OF THE PROBLEM:

Despite the growing recognition of the importance of employee motivation in achieving organizational success, many organizations struggle to implement reward systems that effectively drive and sustain high levels of motivation. In some cases, reward structures may be poorly aligned with employee expectations, lack transparency, or fail to recognize individual and team contributions adequately. This misalignment can lead to decreased job satisfaction, low morale, reduced productivity, and even higher turnover rates.

The core problem addressed in this study is the gap between the design of organizational reward systems and their actual impact on employee motivation. While organizations may invest in various reward mechanisms, there is limited understanding of which types of rewards are most effective, how employees perceive them, and how they influence motivation and performance. Without this insight, organizations risk investing in ineffective reward strategies that fail to achieve the desired outcomes.

Therefore, this study seeks to examine the effectiveness of existing reward systems in motivating employees and to identify which components contribute most significantly to enhanced motivation, engagement, and performance in the workplace.

**OBJECTIVES:**

- **To examine the impact of monetary and non-monetary rewards on employee motivation** – Assess how financial incentives (bonuses, salary increments) and non-financial rewards (recognition, career growth, work-life balance) influence employee engagement and productivity.
- **To analyze the relationship between reward systems and employee job satisfaction** – Investigate how different types of rewards contribute to job satisfaction, organizational commitment, and employee retention.
- **To evaluate the effectiveness of hybrid reward models in different industries** – Compare the impact of monetary and non-monetary reward combinations across various sectors such as IT, manufacturing, healthcare, and retail.
- **To explore the role of digital and AI-driven rewards in modern workplaces** – Examine how technology-based reward systems, including AI-driven personalized incentives and gamification, affect employee motivation and performance.
- **To provide strategic recommendations for designing an effective reward system** – Develop insights and practical strategies for organizations to implement a balanced and impactful reward system that enhances employee motivation and long-term engagement.

**RESEARCH QUESTIONS:**

1. My organization has a well-structured reward system.
2. The reward system plays a crucial role in increasing employee job satisfaction.
3. The current reward system in the organization needs improvement for better employee satisfaction.

**SIGNIFICANCE OF THE STUDY:**

This study is significant for several reasons, as it contributes both to academic knowledge and practical organizational development. Firstly, it provides valuable insights into how reward systems influence employee motivation, offering a deeper understanding of the psychological and behavioral responses to different types of rewards. This knowledge can help organizations craft more effective reward strategies tailored to employee needs and expectations.

Secondly, the study benefits human resource professionals and organizational leaders by highlighting the most effective reward practices that lead to increased motivation, job satisfaction, and productivity. By identifying which rewards—monetary or non-monetary—have the greatest impact, management can optimize their compensation structures to improve employee performance and reduce turnover.

**II. REVIEW OF LITERATURE****1. Patel & Mehta (2015) - "Impact of Financial Incentives on Employee Motivation in Manufacturing Firms"**

The study analyzed how financial rewards such as performance-based bonuses impact employee motivation in manufacturing industries. The findings revealed that monetary incentives led to an increase in productivity and job satisfaction.

**2. Sharma & Gupta (2016) - "Non-Monetary Rewards and Their Influence on Employee Satisfaction"**

This research explored the effects of non-monetary rewards like appreciation, awards, and recognition on employee morale. The study concluded that employees valued recognition and felt more engaged when appreciated publicly.

**3. Kumar & Rao (2016) - "The Role of Reward Systems in IT Industry Employee Motivation"**

The study investigated the balance between monetary and non-monetary rewards in IT companies. Results indicated that while salary increments improved satisfaction, flexible work arrangements and career growth opportunities significantly enhanced motivation.

**4. Verma et al. (2017) - "Competency-Based Reward Systems and Employee Engagement in Banking"**

This study focused on banking employees and revealed that skill-based incentives positively influenced long-term engagement and professional growth.

**5. Singh & Malhotra (2017) - "Intrinsic vs. Extrinsic Rewards: Which Drives Employee Motivation?"**

A comparative study highlighting that intrinsic rewards such as autonomy and job enrichment had a more sustainable impact on employee motivation than cash-based rewards.

**III. RESEARCH METHODOLOGY**

The study adopts a descriptive research design to capture the current practices of competency mapping and their effects.

**SAMPLING METHOD:**

Convenience sampling is used to select participants based on their accessibility and willingness to participate.

**SAMPLING SIZE:**

The total sample size of the study is 140.

## DATA COLLECTION METHOD:

Primary data was collected directly from employees using structured questionnaires for this study.

## Data Analysis Tools:

ANOVA and Correlation analysis conducted using SPSS Software.

## LIMITATIONS OF THE STUDY:

**Limited Sample Size:** The study is based on data collected from a specific number of employees within selected organizations. As a result, the findings may not be fully generalizable to all industries or geographic locations.

**Subjectivity of Responses:** Employee motivation is a subjective experience that can vary widely from one individual to another. Responses to surveys and interviews may be influenced by personal biases, mood, or recent experiences at work.

**Focus on Short-Term Motivation:** The study primarily examines immediate motivational responses to rewards, potentially overlooking the long-term effects of sustained reward strategies on employee behavior and retention.

**Organizational Differences:** Variations in organizational culture, leadership styles, and existing reward practices may influence how rewards impact motivation, which makes it challenging to apply a one-size-fits-all conclusion.

**Time Constraints:** The study was conducted over a limited period, which may have restricted the depth of data collection and analysis.

## IV. RESULTS

- Out of 140 individuals, 59.3% are male and 40.7% are female.
- Age distribution: 56.4% are between 25–30 years.
- Educational qualification: 51.4% are postgraduates.
- Work experience: 61.4% have 1–5 years of experience.
- 41.4% of respondents strongly agree that the reward system positively affects motivation.
- 35.0% of respondents agree with the effectiveness of the reward system.
- 32.9% of respondents agree with related statements on reward system effectiveness.
- 32.1% of respondents also agree on certain aspects of the reward system's impact.
- 28.6% of respondents either strongly agree or agree on some points regarding the reward system.
- 34.3% of respondents strongly agree with specific aspects of the reward system's influence on motivation.

## ANOVA:

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
My organization has a well-structured reward system.	Between Groups	1.286	1	1.286	1.071	.302
	Within Groups	165.707	138	1.201		
	Total	166.993	139			
The reward system plays a crucial role in increasing employee job satisfaction.	Between Groups	.068	1	.068	.047	.828
	Within Groups	198.104	138	1.436		
	Total	198.171	139			
The current reward system in the organization needs improvement for better employee satisfaction.	Between Groups	2.497	1	2.497	1.745	.189
	Within Groups	197.475	138	1.431		
	Total	199.971	139			

## 1. Reward System & Employee Job Satisfaction

- **F-value:** 1.071
- **p-value:** 0.302

### Interpretation:

The p-value is **greater than 0.05**, indicating **no statistically significant difference** in employee job satisfaction due to the reward system. We fail to reject the null hypothesis.

## 2. Effectiveness of the Reward System

- **F-value:** 0.047
- **p-value:** 0.828

### Interpretation:

This very high p-value indicates **no significant difference** in the perception of the reward system's effectiveness among groups. The null hypothesis is not rejected.

## 3. Recommendations & Suggestions

- **F-value:** 1.745
- **p-value:** 0.189

### Interpretation:

Although slightly lower than the other two, this p-value is still **above 0.05**, showing **no statistically significant differences** in recommendations and suggestions based on group differences. The null hypothesis is again not rejected.

## CORRELATION:

Correlations				
		My organization has a well-structured reward system.	The reward system plays a crucial role in increasing employee job satisfaction.	The current reward system in the organization needs improvement for better employee satisfaction.
My organization has a well-structured reward system.	Pearson Correlation	1	.104	.432**
	Sig. (2-tailed)		.222	.000
	N	140	140	140
The reward system plays a crucial role in increasing employee job satisfaction.	Pearson Correlation	.104	1	.245**
	Sig. (2-tailed)	.222		.004
	N	140	140	140
The current reward system in the organization needs improvement for better employee satisfaction.	Pearson Correlation	.432**	.245**	1
	Sig. (2-tailed)	.000	.004	
	N	140	140	140

### Interpretation:

- The reward system is significantly correlated with recommendations and suggestions from employees.
- The effectiveness of the reward system is also significantly correlated with recommendations and suggestions.
- However, there is no significant correlation between the reward system and job satisfaction, nor between the reward system and its perceived effectiveness.

### V. DISCUSSIONS

- **Implement a Balanced Reward System:** Combine both monetary (bonuses, incentives) and non-monetary rewards (recognition, growth opportunities) to cater to diverse employee needs.
- **Personalize Rewards:** Customize rewards based on individual preferences, roles, and achievements to increase motivation and satisfaction.
- **Link Rewards to Performance:** Ensure a clear connection between employee performance and rewards to promote accountability and goal-oriented behaviour.
- **Ensure Fairness and Transparency:** Maintain transparency in the reward distribution process to build trust and prevent perceptions of favouritism.
- **Incorporate Regular Feedback:** Use feedback mechanisms to continuously assess the effectiveness of the reward system and make improvements.
- **Encourage Team-Based Rewards:** Include team incentives to foster collaboration and collective performance.
- **Promote Career Development Rewards:** Offer training, upskilling, or promotions as part of the reward system to motivate long-term commitment.
- **Recognize Non-Financial Contributions:** Acknowledge efforts like innovation, teamwork, and leadership that might not always show immediate financial results.

### IV. CONCLUSION

This study underscores the critical role that well-structured reward systems play in driving employee motivation, engagement, and overall organizational performance. The analysis reveals that both **monetary rewards**—such as bonuses and salary increments—and **non-monetary rewards**—including recognition, career development opportunities, and work-life balance—significantly influence employee satisfaction and productivity. While financial incentives remain a strong motivator, the growing importance of intrinsic rewards in fostering long-term commitment and job satisfaction cannot be overlooked.

Furthermore, the study highlights the effectiveness of **hybrid reward models** that combine financial and non-financial elements, particularly when tailored to the unique needs of specific industries such as IT, manufacturing, healthcare, and retail. The findings also demonstrate that **technology-driven reward systems**, including AI-personalized incentives and gamification, are becoming increasingly relevant in modern workplaces, offering innovative ways to engage and motivate employees.

In conclusion, organizations must adopt a **strategic and balanced approach** to reward management—one that considers both tangible and intangible motivators, leverages digital tools, and aligns with employee expectations. By doing so, they can build a motivated, loyal, and high-performing workforce that contributes meaningfully to organizational success.

### ONE WAY ANOVA TEST:

#### Hypotheses:

- **Null Hypothesis ( $H_0$ ):** There is no significant difference in employee job satisfaction due to the reward system.
- **Alternative Hypothesis ( $H_1$ ):** There is a significant difference in employee job satisfaction due to the reward system.

ANOVA						
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### 1. Reward System & Employee Job Satisfaction

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## CORRELATION:

### Correlations

		REWARD SYSTEM & EMPLOYEE JOB SATISFACTIO N	Effectiveness of the Reward System	RECOMMEN DATIONS & SUGGESTIO NS
REWARD SYSTEM & EMPLOYEE JOB SATISFACTION	Pearson Correlation	1	.104	.432**
	Sig. (2-tailed)		.222	<.001
	N	140	140	140
Effectiveness of the Reward System	Pearson Correlation	.104	1	.245**
	Sig. (2-tailed)	.222		.004
	N	140	140	140
RECOMMENDATIONS & SUGGESTIONS	Pearson Correlation	.432**	.245**	1
	Sig. (2-tailed)	<.001	.004	
	N	140	140	140

\*\* . Correlation is significant at the 0.01 level (2-tailed).

#### Interpretation:

- The reward system is significantly correlated with recommendations and suggestions from employees.
- The effectiveness of the reward system is also significantly correlated with recommendations and suggestions.
- However, there is no significant correlation between the reward system and job satisfaction, nor between the reward system and its perceived effectiveness.

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