Effective Reward and Incentive Scheme for Effective Organizations

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Abstract
Effective reward and incentive scheme has become a tool for organizational effectiveness in the 21st century. Effective reward and incentive scheme can benefit many organizations if managed properly. In this era of globalization there is need for effective reward and incentive scheme in order to enable organizations respond quickly to changes in the environment. The paper reviews literature on the effect of effective reward and incentive scheme on organizational performance. The paper concludes that the success of organizations to a very large extent depends on how effective their reward and incentive schemes are. The paper recommends that managers should put in place an effective reward and incentive scheme that sufficiently motivates employees as this could enhance their productivity, responsiveness and commitment to the achievement of the organizational goals.

Keywords: Effective reward scheme, Effective incentive scheme, Organizational performance, Employee involvement.

1. Introduction
Pay is a powerful Human resource management tool for recruitment, retention, motivation and reward for work done. It is a factor that must be considered if an organization wants to remain competitive in its industry. What employees expect of their employers is no longer just “a fair day’s pay for a fair day’s work” but rather a competitive remuneration package with new innovative methods of providing benefits. Reward provides employees with a tangible reward for their services to the organization. It also provides them with a source of livelihood. Reward and incentive programmes are vital to both organizations and employees.

2. Meaning of Compensation or Reward
- Compensation refers to wage and Salary (pay), benefits and incentives.
  - Wage - Wage refers to payment of money on an hourly or daily or weekly basis to manual workers e.g. production and maintenance workers blue/collar) for work done. The wage rate is expressed either as an amount per unit of output produced (i.e. piece rate).
  - Salary - refers to payment of money at monthly intervals to non-manual workers (e.g. White Collar or managerial workers) for work done. Salary is usually paid on an annual rate, mostly paid by bank transfer. Payment is performance-related. The appointment is pensionable. Liberal expenses are usually paid and employees can be given company cars.
  - Employee benefit refers to all indirect financial payments or benefits-in-kind given to employees as they continue their employment with the organization.
  - Incentives are several plans introduced by organizations to motivate individual employees and groups in the organizations. These are generally referred to as incentive plans. They include skill-based plans, sport awards, team incentives and gain sharing plans.

2.1 To the Employer
- It is an important operational cost that can affect the organization’s competitive ability and profits.
- It affects the employees’ attitudes and behavior towards the organization.
- It has the ability of affecting employees’ recruitment, stay and motivation to work in the organization.
- It affects selection standard, if high standard is used, pay is also expected to be high.
- It affects how training will be accepted in the organization. If training leads to higher pay, training will be of interest to employees.
- It can also be a reason for bias in performance appraisal. If there is no increase in pay attached to an appraisal, it tends to be more objective.
- Low pay can lead to unionization in organizations.

2.2 To the Employees
- It determines their standard of living.
- It shows the employee’s status and level of success.
- It influences the value an employee places on his organization.
• It shows the worth of the employee what he is and what he does to the organization.
• Pay differentiates employees into social classes in the society.

2.3 Goals and policies of effective reward scheme

2.3.1 The goals of effective reward include the following:
- To reduce unnecessary turnover.
- To motivate employees to optimum job performance.
- To promote employer-employee relationship through employee cooperation.
- To control employee’s cost and remain competitive in the industry.
- To remain competitive in the labor market by providing rewards that attracts, retains & motivates.
- To maintain salary equity among employees.
- To reward employees’ past performance i.e. reward people according to their contribution.
- To maintain company profits by maintaining the budget.
- To increase employees job satisfaction.
- To remove poor employees job satisfaction.
- To remove poor employees.
- To meet employees personal needs e.g. security and self-esteem.
- To attract new employees.
- To obtain prestige as an organization that pays well.
- To pay in line with the provisions of the law and the pay to be acceptable to the employees.

To achieve these goals there must be policies to guide the activities of wage and salary administration. A well-considered policy for wage and salary administration should include the following:
- Pay rate in the organization.
- The ability of pay rate to attract retains, motivate and adequately reward employees.
- Pay rate to either be above, below or at the prevailing community rate.
- Pay programme to be acceptable to employees.
- Pay rate to ensure high quality and encourage maximum productivity from employees.
- Intervals for pay rise and basis for granting it i.e. merit or seniority.
- Pay programme to recognize the difference in value between jobs.
- Pay programme ensures labor costs are within control in relation to other costs and revenue.
- Ensure pay programme allows employee to benefit from the growth and prosperity of the organization.

2.4 Factors Affecting Pay Mix (the pay structure and decision)

The factors could be internal or external.

2.4.1 Internal Factors
• Organizational change - Organizations that have relatively stable environment are likely to implement their wage and salary policy with ease.
• Worth of job - The compensable elements of a job which refers to the skill, effort, responsibility and working conditions of the job, are used for evaluating jobs by organizations. The more the skills, effort and responsibility required and the adverse the working condition, the higher the pay.
• Compensation Policy - This refers to the basing of employee pay on organization’s compensation policy.
• Employee’s relative worth - Some employees seem to be more valuable to the organization than others based on their performance.
• Employers Ability to Pay - Organizations vary in their ability to pay employees.

2.4.2 External Factors
• Condition of the labor market- The economy generally has an effect on the labor demands of organizations.
• Going rate of pay - This refers to the prevailing wage rate in the industry, community, state or country.
• Cost of living - When cost of living is high, or inflation is rising, employers are under pressure from labor, to raise wages and salaries to enable employees maintain their purchasing power.
• Collective Bargaining - In organizations where unions exist, the union representatives are expected to negotiate with the management how much their members will be paid.
• Legal requirement / Government Action - The government has severally intervened in pay issues.
• Technological change - Change in technology has affected organizations in no small measure.
• Productivity - This is important in economic and social activities because it affects the standard of living.
• Job security - Organizations with low job security tend to pay higher in order to attract labor.
2.5 Trends in Compensation Management
- Skill-Based Pay - Problems associated with the job-based structure has led to the introduction of skilled based pay and delayering. The problems include lack of initiative, flexibility, reward for desired behavior, barrier to change/cause by the bureaucracy associated with the update of job description and excessive promotion-seeking behavior.
- Organizations also delayer to reduce the problem of bureaucracy, lack of flexibility and initiative. Some organizations use broad banding i.e. grouping of jobs. It encourages flexibility in job assignment and in the assigning of merit increases. Its major problem is that of reduced opportunity for promotion. Broadband with greater spread between minimum and maximum pay can permit employees to be rewarded for learning.

2.6 The Importance of Participation and Communication of Wage and Salary decisions
Involving employees in compensation decision making can reduce problems associated with compensation management. Adequate communication tends to reduce dissatisfaction. Proper explanation of the pay structure to employees can increase organizational communication.

3 Employee Benefits
Benefits constitute an important part of the remuneration package. They are an addition to other forms of cash payment like wages and salaries that are intended to improve the quality of work life for employees and increase their cooperation and productivity.

Employee benefits are provided for a number of reasons which include:
- To reward and promote employee loyalty to the organization
- To discourage unionization
- To make the remuneration package attractive and competitive enough to both attract and retain competent workers.
- To provide for employees personal welfare in line with the paternalistic belief that employees cannot provide for their personal needs.
- To provide employees remuneration that is not heavily taxed (i.e. tax-efficient remuneration package) as most benefits are not taxed.
- To provide employees with accumulated tax free investment returns (e.g. deferred compensation).
- To satisfy legal requirements (e.g. social security retirement system)

3.1 Types of Employee Benefits
- Pay for time not worked for (e.g. sick leave, vacation, maternity leave etc).
- Insurance benefits (e.g. job-related accidents and illness benefits).
- Retirement benefits (e.g. pensions, profit sharing plans)
- Employee service benefits (e.g. counseling, subsidized childcare, transport, meals etc).

Employee benefits can be mandatory and non-mandatory. Mandatory benefits are those required by law – e.g. pensions, workers’ compensation unemployment insurance. Non-mandatory benefits include tuition refund, various discounts etc.

3.2 Managing Employee Benefits
Employees want to be convinced that their employers are interested and committed to their welfare before they can bring out their all in the service of the employers and ensure the organization’s success. Every employee wants a caring organization; benefits can be source of competitive advantage. Organizations need to have a clear benefit plan in line with achieving its strategies for success. Such a plan will include the organization’s specific objective for providing employee benefits. The objective should take into consideration how to satisfy employees’ needs as well as satisfy organizations objectives. The organization’s objectives generally include attracting competent employees, motivating, retaining, improving their morale, providing for their health and security needs, increasing their satisfaction, improving their quality of work life, to be competitive and improve the organization’s image.

To achieve the stated objective management need to carefully consider what benefits might best suit the organization, the acceptance of such benefits by the employees, the total cost involved, the amount available for the provision of benefits and how the results will be evaluated. The benefit program or plan so developed must be subject to modification to suit changing circumstances in the society. Effective communication is necessary to inform the employee about the available benefits and how they can access them. The information should be very clear; multiple channels of communication need to be used. The value of the benefits should be communicated in a way the employees will appreciate them. Some organizations use a computerized benefits statement to keep employees informed about their benefits. The data is also used by management for accurate record keeping and cost-effectiveness.

To have a competitive benefit package an organization need to carry out a survey to know what is available in
other organizations, so that they use it as a basis and add or modify theirs to have an edge. The survey could be done through the use of interviews, questionnaires or information from consultants. The nature of an organization’s work force affects its choice of benefits package. An organization with many single employees may not have the same benefit package with another whose employees are mostly married people. Single people will prefer more money while married people will want health cares and disability leave, pension and life insurance. The benefits adopted by an organization need to be acceptable to its employees for it to be effective in achieving its desired goals. To achieve these individual employees could be interviewed or the union executive could be consulted before the introduction of new benefit package.

3.3 Benefits Cost Control.

Several steps are taken to curb excess expenditure on benefits. These include:
- The use of time-banks in terms of vacation. This ensures employees use only time they are entitled to use. Proper arrangement is also made by employees for their absence so that the employers do not spend extra in recruiting and even paying benefits to the temporary staff.
- Insurance benefit costs can be reduced by screening out accident-prove candidates during selection, maintaining an accident-free incentives (i.e. keeping aside an amount as bonus for employees doing risky jobs who do not have accidents at the end of the year), complying with government standards on safety and health, and rehabilitation of injured employees.
- Health benefit cost can be reduced by changing the benefit plan, reducing the medical cost payments, reimbursing less than 100% health expenses incurred by employees, increasing employee deductions, pegging medical expenses the organization can pay annually, use of employee assistance programmes, direct employees attention towards health promotion and preventive health care programmes and requiring health/medical contributions from employees. Providing healthcare coverage through a local maintenance organization. Providing ‘fitness’ and ‘wellness’ programmes.
- Pension costs can be reduced by the use of contributory funding in which both the employer and employee are expected to contribute to the fund.
- Employee service benefit costs can be reduced by the use of the flexible or cafeteria plan in which the employer sets the maximum amount available for each employee and the employee chooses benefits within the amount.
- Some organizations increase their use of part-time employment as such employees often receive fewer benefits.
- Carrying out detailed analysis of each benefit expense annually to ascertain their usage.

4. Incentive Plans

- To achieve the motivation aspect, organization tie pay to performance or merit.
- It is aimed at cutting costs, restructure and boost performance.
- Financial incentives are monies ear-marked or kept aside for specific targets or priorities
- Incentive plan passes a message across that performance, competence, skill and contribution should be taken seriously by employees.
- It also shows that the organization is equity conscious and will reward employees as soon as the targets are met without any discrimination.
- Incentive plans are important to the employees because it tends to lead to satisfaction.

4.1 Types of Incentive Plans

- Individual Incentive Plans
- Group Incentive Plans
- Organization Incentive Plans

4.2 Incentive for Hourly Personnel

Hourly personnel include production workers, operation employees. There are several types of incentives that are applicable; they include the piecework plan or piece-rate plan, production-bonus, standard-hour plan.

4.2.1 Piecwork plan - This is the oldest and most commonly used incentive plan. It refers to a system where individual employee compensation is based on the number of items or products produced.

4.2.2 Production-Bonuses - A bonus is an addition payment an employee receives for exerting greater effort and exceeding standardized production.

4.4.3 Standardized Hour Plan

Under this plan a standard time is set for employees to complete a job or task. If an employee completes the work in less than the standard time set he is paid the standard rate.

4.5 Incentive Plans for Managerial and Executive Personnel

The incentive plan often used for managers and executives include bonus (for short term) and stock options (for long term).
4.6 Incentive Plans for Sales Personnel
Sales personnel require being highly motivated to be able to motivate others to buy from them. Some sales people are paid salary while others are paid commission. Most organizations pay both.

4.7 Problems Associated with Individual Incentive Plans
The problems associated with individual incentive plans are numerous, some have already been mentioned. They include the difficulty in the establishment of reward standards, performance affected by forces beyond employee control, beating the system tendencies, financial insecurity, associated straight commission, executive bonuses frequently based on short term performance rather than on long term performance, poor plan design and implementation, lack of morale within the organization and existence of management employee strife. The establishment of reward standards tends to be an important problem.

4.8 Group or Organizational Incentive Plans
Organizations tend to introduce incentive plans its entire member can participate in. These include profit-sharing, gain – sharing, and employee-stock ownership plans.

4.8.1 Profit Sharing Plan
This refers to a plan where an employer shares profits with employees usually based on their salary levels and performance ratings to supplement their wages and salaries.

4.8.2 Gain-Sharing Plans
Gain-sharing plan is an incentive plan that enables employees to share in the benefits of improved productivity (i.e. overall labor and production-cost savings) through periodic bonus payments.

4.8.3 Employee Stock Ownership Plans (ESOPs)
This is a form of incentive plan under which employers provide employees company stocks.

4.9 Factors Affecting Incentive Plans
- Lack of Employee’s acceptance – Incentive plans cannot succeed if employees do not accept them. Management needs to convince employees about its benefits.
- Lack of mutual understanding and confidence between employees and management. Two-way communication between employee and management will improve understanding and increase confidence.
- High taxation on income as income level increases. High taxation can reduce the impact of incentive and de-motivate employees.
- Size of Incentive pay- if it is high, employees will be willing to take the risk and put in more effort.
- Government laws- these affect incentives by the fixing of minimum wage such that the base must be attained before incentives can be introduced.
- Economic factors - If the economy is in recession it will be difficult to have profits that can be shared among employees as bonuses.
- Conditions in the labor market - If a particular skill is in high demand, the incentive package to retain the services of such employees may increase. If the skill is surplus employers may want to reduce the incentive package or raise the standard the employee is suppose to attain in order to qualify for the incentive package.
- Labor unions can support or oppose incentive plan.

5 Developing Suitable and Effective Incentive Plan
- Incentive plans need to be well thought-out, carefully planned, implemented and maintained to achieve the desired full benefits
- It must suit the situation it is to be applied, for it to be meaningful and effective. Where quantity is more important than quality and labor cost must be precise.
- It must be based on attainable standards that should be properly communicated to employees.
- There should be no unnecessary shifting of standards once set.
- There should be a base hourly rate upon which higher performance is further rewarded.
- The processes involved in establishing an incentive plan need to be properly provided for with adequate annual salary budget for its effective implementation.
- There must be an enabling environment of trust and confidence for incentive plans to be successful.
- Goals of incentive plans should be specific so that when attained reward can be given promptly and directly.
- Incentive plans should be in line with HR policies and the organizational strategy. The organizational culture, climate and philosophy should support the effective administration of the incentive plans adopted
- Incentive plans cannot correct the mistakes in recruitment, selection, training and development and
6 Conclusion

From the foregoing, organizations need to take the issue of reward and incentives seriously as it has the ability of influencing employee’s attitude, contribution and commitment towards the organization. In order to increase productivity and have competitive edge, organizations must reward effectively. Rewards are means of motivating organizational members. It should be used to make employees to bring out their best performance at the workplace. It is expected that the reward system will improve productivity, and influence the effective and efficient utilization of corporate resources to achieve corporate objectives. Organizations should reward committed employees to promote loyalty. The effective use of incentives can go a long way in making managers concentrate on more serious issues like planning and innovating as employees know what to do and will do to obtain what they want from the organization.

References


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