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# RESEARCH PROPOSALON

## AN INVESTIGATION INTO THE IMPACT OF REWARD SYSTEMS ON JOB SATISFACTION AND RETENTION OF EMPLOYEES

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## ABSTRACT

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*An organisation cannot function properly without the commitment and co-operation of its workforce to carry out the set tasks and goals of the organisation. Employees are usually paid for their services in financial forms of remuneration or pay but in many organisations employees are rewarded for a good job done, in some way or the other. Organizations introduce some kind of reward scheme. The aim of these schemes is to reward employees for achieving set goals in a better way and also to motivate employees within the workplace.*

*Motivation is another topic of extreme importance in the field of not only business but all other workplaces as well, which involve human working force. It is a very complex and worthy topic of study. This research follows from the title as an ‘investigation into the impact of reward systems into the job satisfaction and retention of the employees’ discusses this important concept of HR in relation to the rewards systems offered by the organizations. The relevant literature is carefully compiled and a quantitative research is carried out, by evaluating the data received from a sample of population from two large organizations in the service sector of UK.*

*In completing the aims and objectives of this research, it was explored that how employee rewards motivate employees positively and how employees perceive these rewards and benefits as a factor in achieving motivation and job satisfaction. To do so, all the study was compiled and the information gathered is represented using tables, charts and graphs.*

## 1.0 INTRODUCTION

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Human resources are one of the most important resources of an organization that helps the organization in gaining competitive advantage over its competitors and this resource should be retained and utilized optimally through motivating it by using different techniques. Job satisfaction and reward systems are two crucial concepts of HRM. The most acknowledged and known factors of job satisfaction are pay, promotion opportunities, co-workers, supervision, and the work itself (Kamoche, 2011). According to Brown and Reilly, an effective reward system plays a vital role in sustaining the high performers in the organization and that the rewards should be in accordance to their productivity levels (2013).

The objective of the research is to investigate the correlation between these two terms and analyze how the current reward systems of organizations in UK helps increase employee work motivation and contributes towards their overall job satisfaction in service sector. The impact of job satisfaction and different reward systems were examined with samples from workers in two private large organizations. In addition to that the implications of job satisfaction on customer satisfaction and loyalty towards organizations were also investigated. The quantitative research method including questionnaires was used to conduct the empirical part of the research. A total of 180 questionnaires were distributed among the employees of the two organizations and 173 employees responded by filling the questionnaires.

It was hypothesized that rewards play a significant role in employee satisfaction which in turn increases their satisfaction and fidelity towards that particular organization. Out of that 173 usable surveys were analyzed with Microsoft excel to test the hypotheses of the study. Results confirmed that rewards have a positive impact on job satisfaction of employees. Furthermore the findings also showed that job satisfaction of employees made them more productive and also increased their commitment to the organization, which is of inevitable importance in present times where all firms are looking for competitive advantage. Similarly, workers with higher level of job satisfaction would have a decreased inclination to leave the organization in search of a better job (Torrington et al., 2014).

The study results thus highlight that it's an important responsibility of organizations to nurture good quality HRM practices in the service sectors. These results prove that HR

practises play an unavoidable role in the overall success of a business rather than the other way around.

### 1.1 STRATEGY FOR THE RESEARCH

Although, there is no one specific definition for the term of research, but it can be defined as a systematic way of asking questions and doing a systematic inquiry (Thomas, 2014). It involves a series of steps to perform any research in a logical manner by employing the set scientific methodology. The purpose of any research is to reveal the answers to the set questions and to gather unfaltering knowledge (Stainton-Rogers, 2013). Scientific research is a way of thinking that is more accurate and dependable (Graziano & Raulin, 2010, p.27).

This research paper aims at figuring out rewards that employees acquire and are they helpful enough to motivate employees and does these reward have any correlation with employee retention and commitment to the company. The research framework known as the ‘research onion’ will be used in this study. This framework was developed by Saunders, Lewis and Thornhill (2006), as shown below;

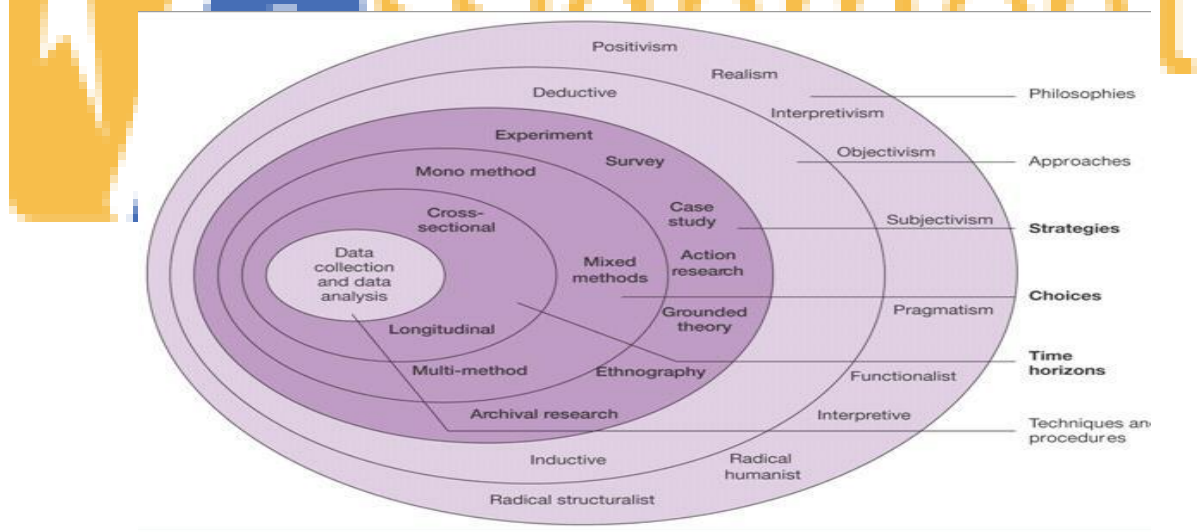
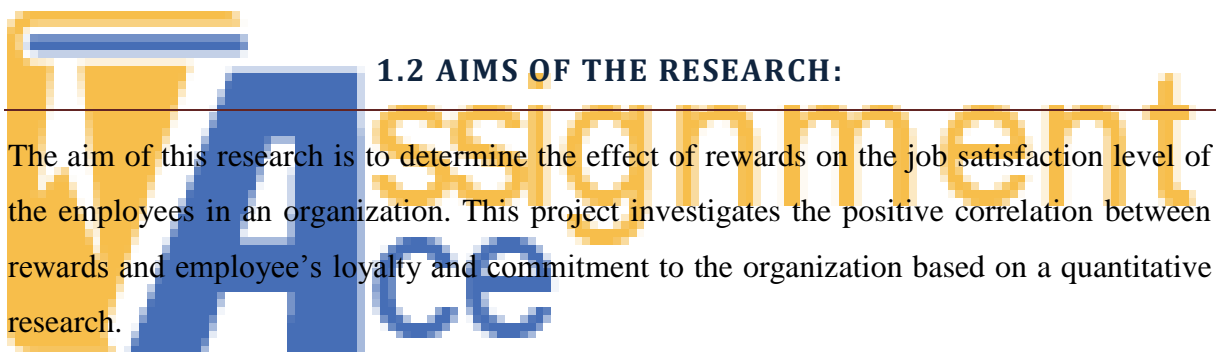


Figure.1: Research onion (Saunders, Lewis & Thornhill, 2006)

This study will be devised on the basis of a broadly structured methodology and the aim will be to do statistical analysis. Logical reasoning will be used so that accuracy, objectivity and thoroughness underpin this research paper. It is expected that the findings of this research will help achieve the objectives of the research and prove the hypotheses of this particular research. It is also hoped that the adequate research will be done and that the selected sample is also expected to provide accurate, useable and reliable information to get the suitable data

for investigation. To attain a suitable outcome, a suitable and applicable theory and literature will be used along with the data collected from the sample, so as to prove the objectives of the study and the hypotheses drawn and to highlight any gaps in literature available in this area of research.

As this study was conducted on the basis of questionnaires, the research is based on that of a quantitative method. Reasons for this are to achieve objective measurements and quantitative analysis. Thoroughly researching previous studies surrounding the areas of Employee reward, Employees attitudes toward benefits and indeed motivation in the workplace, we can notice a trend of the preference to use a quantitative instead of qualitative research. Therefore, using questionnaire as part of a quantitative research is preferred in this study to attain a non-biased set of data. Quantitative research is a highly objective research method where the researcher is definitely unlikely to influence the study through their own values (Jonker & Pennink, 2010).



### **1.2 AIMS OF THE RESEARCH:**

The aim of this research is to determine the effect of rewards on the job satisfaction level of the employees in an organization. This project investigates the positive correlation between rewards and employee's loyalty and commitment to the organization based on a quantitative research.

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### **1.3 OBJECTIVES OF THE RESEARCH:**

The objective of this study was to investigate the relationship between incentives and rewards on employee motivation levels leading to their job satisfaction. Furthermore, to analyze the impact of employee's rewards received on their commitment and loyalty to the organization. The main objective of this research is to explore the role that employee reward plays with regard to motivating employees, increasing productivity and the possibility of improved loyalty and staff retention.

## 2.0 LITERATURE REVIEW:

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The concept of job satisfaction has gained so much attention during the last four decades, because of the fact that increased job satisfaction of employees have been found related to numerous organizational outcomes including lower turnover rates (Sanjay, Thomas & John, 2016), increased retention and improved performance at the workplace (Rees and Smith, 2014). It has been one of the most frequently studied variables in human resources management and organizational behaviour research. Many researches are being done to identify the different constituents of job satisfaction of employees and to identify the impact that these constituents have on an employee's performance.

Nowadays, organizations from all the sectors are facing many issues related to workers performance and their job satisfaction and motivational levels. A series of findings derived from quantitative and qualitative studies have reported rewards as an important contributor towards employee's job satisfaction and improved productivity. Researchers including Brown and Reilly have also argued that rewards offered by organizations have a great impact on the attitudes of the workers towards their jobs and their organizations (2013). Rewards comprise the benefits employees receive for their work done (Delbridge, 2013). According to Herzberg & Mausner's two factor theory, there are two types of rewards, intrinsic and extrinsic that impacts the satisfaction level of employees towards their jobs (Purcell, 2013).

Different employees have different needs regarding rewards (Hayward, 2010). Intrinsic rewards also known as nonfinancial rewards exist within the job itself such as diversity, challenge and self-sufficiency. Extrinsic rewards also known as financial reward, on the other hand, include pays, fringe benefits, promotions or career progression opportunities within organizations etc. Further research has suggested that satisfaction with extrinsic rewards will lead to prolongation of commitment with the organization resulting in increased loyalty and retention (Gorschek, 2011).

This study is conducted to figure out the relationship between an employee's rewards received and his motivation level which in turn increases his satisfaction level improving the overall organizational performance. In this study, findings show a close relationship between several dimensions of work motivation and satisfaction in relation to financial and nonfinancial rewards received. The data needed to conduct this study is collected through a

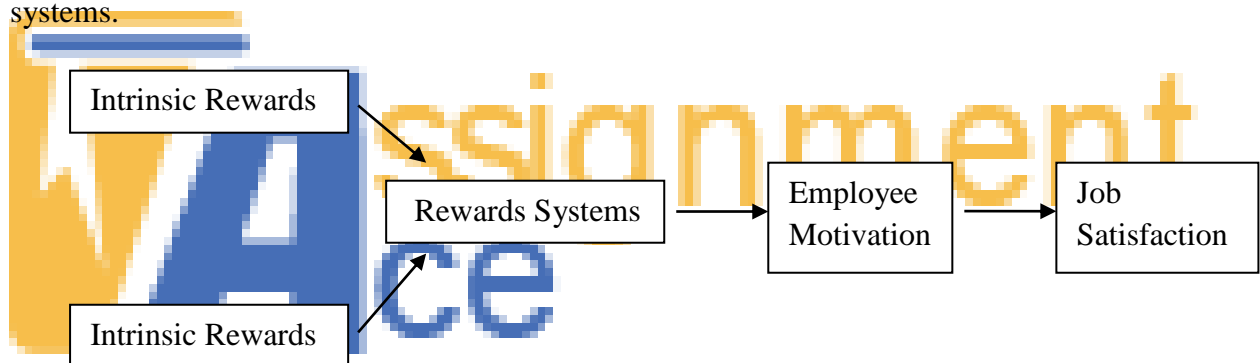
self formulated questionnaire. This research highlights that employees give financial rewards more importance compared to non financial rewards.

Robbins, Judge, and Campbell in their research pronounce that rewards promote happiness and contentment (2010). In her research, Pink explained employee happiness revolves around rewards and recognition (2011). A good reward system helps in the retention of high performers; therefore, rewards must be an important part of organizational strategy to achieve an edge over its rivals (Larkin, Lamar, & Gina, 2012).

## 2.1 CONCEPTUAL FRAMEWORK

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Carefully reading the literature review, following conceptual framework can be formulated to illustrate the relationship between motivation and job satisfaction of employees and reward systems.



## 2.2 HYPOTHESES

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Assuming the relationship between the rewards and workers motivation leading to job satisfaction of employees which then increases their loyalty and commitment, following hypotheses were developed for analyzing and testing

### HYPOTHESIS 1

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Rewards and job satisfaction of employees are directly proportional to each other and there is a significant relationship between the two in the service sector of UK.

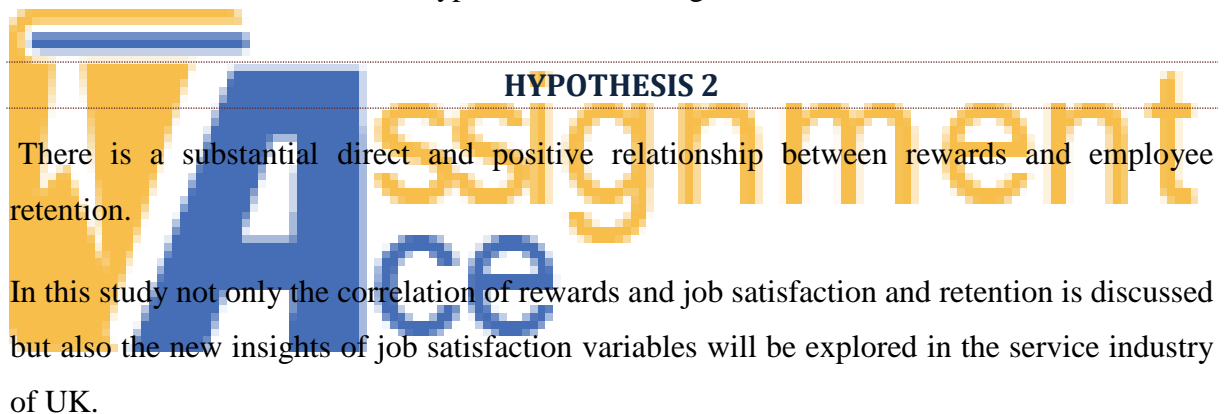
Two very important features of HRM are compensation and rewards. They play a vital role in determining the employee's commitment levels, their loyalty and retention. According to



Veling & Aarts, financial benefits affect the behaviour of the workers through shaping their attitudes and influences their attraction and retention (2010). Through a competitive and market-related pay and benefits, an organisation can efficiently be successful in its retention strategy because it stimulates the motivation of employees to become more committed to the organisation (Nujjoo & Meyer, 2012). According to a research, depending upon the rewards they receive, workers will decide to remain or leave the organization (Melancon, Noble & Noble, 2010). Employees are likely to become more committed to the organisations when they believe that their contributions and efforts are appreciated (Saqib et al., 2015).

Zafarullah and Sharjeel also concluded through their thorough research that monetary and non-monetary rewards raise employee retention (2014). They reported that monetary rewards including, performance bonuses, reasonable salaries, and remuneration, increase employee retention considerably compared to non-monetary ones.

This assertion led to the second hypothesis, which is given bellow



**HYPOTHESIS 2**

There is a substantial direct and positive relationship between rewards and employee retention.

In this study not only the correlation of rewards and job satisfaction and retention is discussed but also the new insights of job satisfaction variables will be explored in the service industry of UK.

### **2.3 APPROPRIATE PLAN FOR THE STRATEGIC RESEARCH ON SERVICE INNOVATION**

There are two research methodologies, quantitative and qualitative. Research methodology selection mainly depends upon the research goals. According to the objective of the research, there are multiple factors that need to be considered while determining the framework of research method being utilized. After the research goals being established, the statistical significance of the results is of key importance in selection of the method being employed. As in this specific research we need definitive data driven results and large samples, quantitative research methodology was employed.

### **3.0. RESEARCH DESIGN AND METHODOLOGY:**

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This research is conducted in the service sector of the United Kingdom. First of all two large scale organizations which provide services to the inhabitants of United Kingdom are chosen. These two organizations were named as Org1 and Org2 for the sake of study. Randomly, 180 employees were selected from these organizations. These employees were chosen deliberately having different demographic features and from nearly all the hierarchical levels of the selected organizations but mostly non managerial. These samples represent all the employees belonging to all the different organizations of the country. A questionnaire was given to each of them to fill within a specific time period. One week time was given in total to each of the respondents. After one week period, 172 filled questionnaires were returned. Some of the questionnaires were either not completely filled or did not seem truthful. All those questionnaires were excluded and a total of 161 questionnaires were finally obtained for the further study. So, the overall response rate was 93.6 percent.

#### **3.1 INSTRUMENT AND SCALE MEASUREMENT OF VARIABLES**

A questionnaire consisting 24 questions was devised. All of the questions were well laid and easy to comprehend. Both closed and open ended questions were included. Open ended questions were included so as to enable the respondents to give their personal opinions on different aspects of job satisfaction. This questionnaire was split into four parts. Employee's biographical information and job satisfaction variables were part of the questionnaire. Biographical sections comprised information about age, gender, job tenure and position at the hierarchical level of the organization and were collected using a nominal scale with pre-coded options. There were included 16 questions related to job satisfaction variables. These were multiple choice questions with their answers recorded on a scale of 1-5 using a mixture of four and five points scale.

The sample questionnaire was first tested on a small group of 12 people to assess and enhance its validity and then sent to the field. The job satisfaction level of employees was measured using a five point scale with 1 as very dissatisfied and 5 as very satisfied. The impact of job satisfaction of employees on their loyalty and commitment to the organization was also measured on a five point scale 1 as strongly agree to 5 as strongly disagree. The

impact of benefits and rewards on employee's satisfaction was measured using a four point's scale with 1 as very likely to 4 as not likely. On the other hand, all the remaining questions included 'only a yes and no' response or 'give your own opinions'.

### 3.2 VALIDITY AND RELIABILITY OF THE DATA

It is very essential to use appropriate and right methods and procedures to get the answers the research was intended for. Shields and Rangarjan state that it is imperative to make sure the instrument employed is able to gather and measure the data collected (2013). Therefore, in order to test and enhance the validity of the instrument being used in this study to collect the credible data, the sample questionnaire was first tested on a small group of 12 people and after rectifying any flaws or shortcomings the final tested questionnaire was used to collect relevant data from the selected sample of respondents.

## 4.0 RESULT ANALYSIS AND DISCUSSION

### Descriptive Statistics

Below are the demographic variables results of respondents

Gender	Percentage
Male	60.24 97
Female	39.75 64
Total	100
Race	
White	71.42
Black	6.58
Colored	22
Total	100
Level of education	
University first degree	56.52 91
Ordinary diploma degrees	15.52 25
Professional certificates	18.01 29
Higher National Diploma (HND) certificates	9.93 16

Length of work		
1-5 years	85.09	137
5 or more years	14.90	24

This table shows that majority the respondents were male, 97 out of 161 were male and 64 were female. White workers constitute the majority of the employees, as 115 were white workers and remaining belonged to other races. This table also shows that 137 of the workers had work tenure of 1-5 years and remaining 24 had more than 5 years work tenure at that company.

## 4.1 HYPOTHESES TESTING

### Hypothesis 1

Given bellow, tables 1 & 2 present the observed and expected frequencies with the computed chi-square statistics for the measures of each of the organisations studied. The following model is used to test the H1:

$$X^2 = \sum \frac{(O-E)^2}{E}$$

Where X<sup>2</sup>= chi-square

∑= Summation

O= Observed frequency, i.e. from Table 1 below

E= Expected frequency, i.e. (row total x column total)  
Grand total

Table 1: Observed Frequency of Higher Rewards will induce Higher Job Satisfaction Responses

Responses	Org 1	Org 2	Total
Very Likely	41	50	91
Likely	25	30	55

<b>Fairly Likely</b>	6	4	10
<b>Not Likely</b>	4	1	5
<b>Total</b>	76	85	161

Table 2: Expected Frequency and Computed Chi-Square (X<sup>2</sup>) of Rewards and Job Satisfaction Observed Frequency (O) Expected Frequency (E) O-E (O-E)<sup>2</sup>

<b>Observed Frequency (O)</b>	<b>Expected Frequency E</b>	<b>O-E</b>	<b>(O-E)<sup>2</sup></b>	<b>(O-E)/ E</b>
41	42.956522	-1.9565	3.827977316	0.089
25	25.962733	-0.9627	0.926854674	0.036
6	4.7204969	1.2795	1.637128197	0.347
4	2.3602484	1.63975	2.688785155	1.139
50	48.043478	1.95652	3.827977316	0.080
30	29.037267	0.96273	0.926854674	0.032
4	5.2795031	-1.2795	1.637128197	0.310
1	2.6397516	-1.6398	2.688785155	1.019

Hence,  $\sum X^2 = 3.051$

**Conclusion:**

There is a significant relationship between higher rewards and higher job satisfaction of employees. Chi-Square (x<sup>2</sup>) was used to test the statistics at a significance level of .05% (i.e.  $\alpha = .05$ ), and the degree of freedom (df = 3), Computed Chi-square (X<sup>2</sup>) =3.204 and Chi-Square (X<sup>2</sup>) critical =7.815

These statistics validate H1, which states that there is a significant relationship between rewards and employees job satisfaction. The hypothesis (H1) is accepted at 5% level of significance since Chi-square (X<sup>2</sup>) computed (3.051) is less than Chi-square (X<sup>2</sup>) critical (7.82).

**Hypothesis 2**

The same model as used for H1 was used to test H2. Table 3 and 4 given below present the observed and expected frequencies along with the computed chi-square for H2.

Table 3: Observed Frequency of higher rewards will increase employees retention

Responses	Org 1	Org 2	Total
<b>Strongly Disagree</b>	8	8	16
<b>Disagree</b>	5	6	11
<b>Neither</b>	0	0	0
<b>Agree</b>	13	17	30
<b>Strongly Agree</b>	44	60	104
<b>Total</b>	70	91	161

Table 4: Expected Frequency and Computed Chi-Square ( $X^2$ ) of workers retention

Frequency	Expected Frequency	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> / E
8	6.956521739	1.04348	1.088846881	0.157
5	4.782608696	0.21739	0.047258979	0.010
13	13.04347826	-0.0435	0.001890359	0.000
44	45.2173913	-1.2174	1.482041588	0.033
8	9.043478261	-1.0435	1.088846881	0.120
6	6.217391304	-0.2174	0.047258979	0.008
17	16.95652174	0.04348	0.001890359	0.000
60	58.7826087	1.21739	1.482041588	0.025

Hence,  $\sum X^2 = 0.353$

**Conclusion:**

The results of these calculations show that H2 of the study, which states that, there is a significant positive relationship between rewards and employee's retention is approved since computed (0.353) chi-square ( $X^2$ ) is less than critical (7.82) chi-square ( $X^2$ ).

**Rewards and job satisfaction:**

The results of this study show that there is a very significant relationship between rewards and job satisfaction amongst employees. Results in tables above prove this statistically.

**Rewards and employee retention:**

Results from research point out that a positive relationship exists between rewards and employee, which means that the more an employee is rewarded, the more likely they are to remain in that same organization.

## 5.0 DISCUSSIONS AND CONCLUSIONS

The major findings of this research are that, there is a significant positive relationship between rewards and job satisfaction of employees, and secondly, there is a significant

relationship between rewards and employees retention as well. Findings also indicated that, majority of the respondents of this study considered the rewards that they receive as a return in exchange of their performance. More importantly, it was noticed that productivity of the organization was observed to improve if the staff was motivated through the use of extrinsic and intrinsic rewards.

It is a natural process that rewards and recognition of employees boosts their motivation levels and leads to improved performance and commitment to the organization. It is proved through this study that both intrinsic and extrinsic rewards enhances the job satisfaction of workers and decreases their turnover rates. This study increases our understanding of job satisfaction, motivation and management practices in accordance, in a number of ways.

However, effective reward systems serve to boost the employee's morale; it triggers the employees to perform better at respective jobs to get rewarded. At the same time employees try to put their best to enhance their skills and utilize them effectively to their optimal levels, which in turn boosts the company profit margins. Hence it is shows that there is a definite link between the employee motivation and company performance, so the employers should concentrate on developing effective reward systems and include them in the organizational strategies to achieve success in the long run.

## 6.0 RECOMMENDATIONS:

The conclusion of this study highlights that rewards and motivation are two important elements for the success of any organization. Therefore, managers should make rewards an integral part of the company's strategy and consider many factors while devising the reward systems. Some of the tips to help devise a better reward system are mentioned below

- Managers or employers should ensure that employees understand how to earn the rewards. They should be communicated either verbally or non-verbally that what is expected from them, so that they can strive to utilize their skills and capabilities in the right directions.
- Employers should set performance standards that are reasonable and transparent. Rewards should be based on objective performance data. It should be ensured that employees view the rewards fair and free of any bias.

- Both small and large accomplishments should be recognized. A good performance should never be taken for granted. This will increase the employee morale and positive behaviors at the workplace.
- Attempts should be made to design a reward system that meets the needs of every worker. Some employees may not have the same needs as others have and therefore, such rewards may not motivate them.
- It is also advised to try to take feedback from the employees while devising and implementing a particular reward system. Reward programs must be revised properly.



Assignment  
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