

RESEARCH PAPER
ON
IMPACT OF REWARDS AND
INCENTIVES ON EMPLOYEE
PERFORMANCE

A Human Resource Management Perspective

Submitted by

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DECLARATION

I, **Swejal Vijay Zodape**, hereby declare that the research paper entitled **“IMPACT OF REWARDS AND INCENTIVES ON EMPLOYEE PERFORMANCE”** is prepared by me as part of my academic work for the MBA programme at **Wainganga College of Engineering and Management**.

The information presented in this research paper has been collected from relevant secondary sources and academic literature. I have made sincere efforts to present the information accurately and objectively.

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Abstract

Employee performance is a critical determinant of organizational productivity, competitiveness, and long-term sustainability. Rewards and incentives are widely used by organizations to motivate employees, recognize achievements, improve job satisfaction, and encourage the achievement of organizational objectives. This paper examines the impact of financial and non-financial rewards and incentives on employee performance through a review of existing academic literature. Financial rewards include salaries, bonuses, commissions, performance-linked payments, and monetary benefits, whereas non-financial rewards include recognition, promotion opportunities, professional development, flexible working arrangements, and appreciation from supervisors. The review draws on established theories of motivation and empirical research concerning reward systems and workplace performance. Existing evidence generally indicates that appropriately designed incentive systems can improve employee performance; however, their effectiveness depends on factors such as perceived fairness, transparency, task complexity, organizational culture, and employees' intrinsic motivation. Financial incentives may be particularly effective in encouraging measurable outputs, while recognition and opportunities for development may contribute to engagement, commitment, and performance quality. The paper argues that organizations should adopt an integrated reward management approach that balances financial compensation with non-financial recognition and employee development. It concludes by identifying practical implications for human resource management and directions for future empirical research.

Keywords: Employee Performance, Rewards, Incentives, Employee Motivation, Financial Rewards, Non-Financial Rewards, Human Resource Management.

1. Introduction

Human resources are among the most important assets of an organization because employees contribute directly to productivity, service quality, innovation, and organizational effectiveness. In an increasingly competitive business environment, organizations must develop effective strategies to attract, motivate, retain, and improve the performance of their workforce. One of the major strategies used to achieve these objectives is the implementation of appropriate reward and incentive systems.

Rewards refer to the financial and non-financial benefits employees receive in recognition of their contribution to an organization. Incentives are benefits or opportunities designed to encourage particular behaviours or levels of performance. These mechanisms may include salary increases, bonuses, commissions, performance awards, promotions, public recognition, and opportunities for professional development.

The relationship between rewards and employee performance has attracted considerable attention in organizational behaviour, psychology, and human resource management. Condly et al. (2003), in a meta-analytic review of incentive research, reported an average performance improvement of approximately 22% across the incentive programmes included in their analysis. However, this result should not be interpreted as a guaranteed improvement in every organization, because the effects of incentives depend on the setting and programme design.

Similarly, Cerasoli et al. (2014) examined the relationship between intrinsic motivation, extrinsic incentives, and performance. Their findings indicated that incentives and intrinsic motivation can complement one another, although their relative importance varies according to whether performance is assessed through quantity or quality.

Despite the potential advantages of rewards, poorly designed incentive programmes may create perceptions of unfairness, excessive competition, short-term thinking, or an excessive focus on measurable targets. Consequently, organizations need to understand not only whether rewards influence employee performance but also which forms of rewards are most effective and under what circumstances.

This paper reviews the available literature on financial and non-financial rewards, discusses the theoretical foundations of employee motivation, and identifies practical implications for developing effective reward management systems.

2. Research Problem

Organizations invest substantial resources in employee compensation, bonuses, recognition programmes, and other incentives. However, the effectiveness of these investments depends on whether employees perceive the reward system as fair, meaningful, achievable, and directly related to their contributions.

Some organizations rely heavily on monetary incentives, while others emphasize recognition, promotion, participation, and professional development. The challenge is to determine how these different reward mechanisms relate to employee productivity, work quality, motivation, and overall performance.

The central research problem addressed in this paper is the need to understand the relationship between reward and incentive practices and employee performance, while recognizing that the relationship may vary across employees, tasks, and organizational settings.

3. Objectives of the Study

The main objective of this paper is to examine the impact of rewards and incentives on employee performance.

The specific objectives are:

1. To examine the relationship between financial rewards and employee performance.
2. To evaluate the influence of non-financial rewards on employee motivation and performance.
3. To understand the role of perceived fairness and transparency in reward effectiveness.
4. To explore the relationship between intrinsic motivation, extrinsic incentives, and employee performance.
5. To identify practical strategies for developing effective organizational reward systems.
6. To identify gaps in the existing literature and suggest directions for future research.

4. Research Questions

This paper addresses the following research questions:

1. How do financial rewards influence employee performance?
2. How do non-financial rewards contribute to employee motivation and work outcomes?
3. How does perceived fairness influence employees' responses to reward systems?
4. What role does intrinsic motivation play in the relationship between incentives and performance?
5. How can organizations design reward systems that support both productivity and work quality?

5. Literature Review

5.1 Concept of Employee Performance

Employee performance refers to the extent to which an employee fulfils assigned responsibilities and contributes to organizational objectives. It may include task performance, productivity, work quality, punctuality, teamwork, adaptability, and contextual performance.

Performance should not be measured exclusively through the quantity of work completed. For example, a sales employee may be assessed through sales volume, whereas a healthcare employee may require evaluation based on service quality, safety, and professional conduct.

Therefore, reward systems should be aligned with the specific performance dimensions relevant to each job. Incentives that improve output quantity may not necessarily produce equivalent improvements in quality, creativity, or customer satisfaction.

5.2 Financial Rewards and Employee Performance

Financial rewards are monetary benefits provided to employees in exchange for their work or in recognition of their achievements. They include basic salary, bonuses, commissions, performance-linked pay, profit-sharing arrangements, and other monetary benefits.

Financial rewards can influence performance by increasing the perceived value of achieving organizational goals. When employees understand how their

efforts contribute to measurable outcomes and how those outcomes determine rewards, they may be encouraged to improve their productivity.

Garbers and Konradt (2014) conducted a quantitative review of individual and team-based financial incentives. Their analysis found positive effects for individual financial incentives and team-based incentives, although the size of the effects varied according to the circumstances and characteristics of the work.

Chen et al. (2023), in a meta-analysis based on 108 independent samples involving 71,438 participants, also found a positive relationship between pay for performance and job performance.

Nevertheless, financial rewards are not equally effective in every context. Their success depends on the clarity of performance criteria, the credibility of the reward promise, the attainability of targets, and employees' perceptions of fairness. If targets encourage employees to prioritize speed over accuracy or individual achievement over teamwork, the resulting performance improvements may be limited or unsustainable.

5.3 Non-Financial Rewards and Employee Performance

Non-financial rewards are forms of recognition or benefits that do not directly involve additional monetary payments. Examples include appreciation, awards, promotion opportunities, career development, increased responsibility, flexible working arrangements, and participation in decision-making.

Such rewards may help employees feel valued and respected within their organizations. Recognition from supervisors can reinforce desirable behaviour, while career development opportunities can improve employees' competence and confidence.

Non-financial rewards can also contribute to organizational commitment and engagement. For example, employees who receive constructive feedback and opportunities to learn may become more willing to accept responsibility and contribute innovative ideas.

However, non-financial rewards should complement rather than replace fair compensation and reasonable working conditions. Recognition alone is unlikely to compensate for persistently inadequate pay, excessive workloads, or an unfair work environment.

5.4 Intrinsic and Extrinsic Motivation

Intrinsic motivation arises when employees find their work meaningful, interesting, or personally satisfying. Extrinsic motivation occurs when behaviour is influenced by external outcomes, such as financial rewards, promotions, recognition, or avoidance of penalties.

Cerasoli et al. (2014) found that intrinsic motivation remained relevant to performance even when extrinsic incentives were present. Their analysis further suggested that intrinsic motivation was more predictive of performance quality, whereas incentives were more predictive of performance quantity.

These findings indicate that organizations should avoid treating financial incentives and intrinsic motivation as mutually exclusive. Instead, reward systems should encourage achievement without unnecessarily reducing employees' autonomy, professional interest, or sense of purpose.

5.5 Perceived Fairness and Reward Effectiveness

Perceived fairness is an important consideration in reward management. Employees compare their contributions and rewards with those of colleagues and with their expectations regarding organizational policies.

When employees believe that rewards are allocated consistently and transparently, they may be more likely to trust management and accept performance expectations. Conversely, unexplained differences in compensation or favouritism in recognition may reduce morale and motivation.

Reward systems should therefore communicate eligibility criteria, performance measures, evaluation procedures, and the reasons for reward decisions. Employees should also have an appropriate mechanism for seeking clarification or challenging apparent errors.

5.6 Team-Based Rewards

Team-based incentives link rewards to collective results rather than exclusively to individual achievement. They may encourage cooperation, information sharing, mutual support, and the achievement of common objectives.

Garbers and Konradt (2014) reported positive effects for team-based financial incentives, with the distribution of rewards and team characteristics influencing outcomes.

However, team-based rewards can create problems when individual contributions differ substantially or when some employees benefit disproportionately from the efforts of others. Organizations should therefore consider transparent contribution measures and suitable combinations of individual and team-based incentives.

6. Theoretical Framework

6.1 Expectancy Theory

Vroom's (1964) expectancy theory proposes that motivation is influenced by employees' beliefs about the relationship between effort, performance, and rewards.

Applied to reward management, employees are more likely to exert effort when they believe that:

- Their effort can produce the required performance.
- Their performance will be assessed accurately.
- Achieving the required performance will lead to the promised reward.
- The reward is valuable to them.

If employees believe that performance targets are unattainable or that management will not honour promised rewards, the motivational value of the incentive may decline.

6.2 Equity Theory

Adams's (1965) equity theory emphasizes employees' perceptions of fairness when comparing their contributions and outcomes with those of others.

In organizational settings, employees may compare their workload, experience, skills, responsibilities, and rewards with those of colleagues. Perceived inequity can contribute to dissatisfaction and reduced willingness to contribute additional effort.

This theory highlights the importance of transparent evaluation procedures, consistent policies, and appropriate explanations for differences in compensation.

6.3 Self-Determination Theory

Self-determination theory emphasizes the importance of autonomy, competence, and relatedness in supporting motivation (Deci & Ryan, 2000).

From this perspective, rewards may support motivation when they communicate competence and provide useful feedback. However, rewards experienced as controlling may undermine employees' sense of autonomy in some circumstances.

Deci et al. (1999) found that certain expected, tangible rewards could undermine intrinsic motivation in experimental studies. These findings should be interpreted in context rather than applied as a universal claim that financial incentives reduce workplace performance.

Taken together, these theories suggest that effective reward systems must consider both external outcomes and employees' psychological experiences.

7. Research Methodology

7.1 Research Design

This paper adopts a narrative literature review approach to examine the relationship between rewards, incentives, and employee performance. It synthesizes established theoretical perspectives and previously published research rather than presenting original survey or experimental data.

7.2 Sources of Literature

The review is informed by peer-reviewed journal articles and established academic publications relating to organizational behaviour, employee motivation, financial incentives, non-financial rewards, and job performance. Relevant sources include research published in *Psychological Bulletin*, the *Journal of Occupational and Organizational Psychology*, and other academic journals.

7.3 Literature Selection

The literature was selected for its relevance to the central research questions, its contribution to theoretical understanding, and the availability of empirical findings or research syntheses. Particular attention was given to meta-analyses and theoretical publications that examine the relationship between incentives, motivation, and performance.

Methodological note: This manuscript is a narrative review, not a registered or fully reproducible systematic literature review. A formal systematic review would require documented database searches, search strings, publication-date limits, inclusion and exclusion criteria, duplicate removal, and a structured quality assessment.

7.4 Method of Analysis

The selected literature was organized into five themes:

1. Financial rewards and performance.
2. Non-financial rewards and recognition.
3. Intrinsic and extrinsic motivation.
4. Perceived fairness and reward distribution.
5. Individual and team-based incentives.

The findings were compared conceptually to identify common conclusions, differences in outcomes, and implications for organizational reward management.

7.5 Ethical Considerations

As the paper uses previously published literature and does not report original human-participant data, no primary participant recruitment or survey procedure is claimed. All references should be verified against the original publications before submission.

8. Findings and Discussion

The reviewed literature suggests several important patterns concerning the relationship between rewards and employee performance.

8.1 Rewards Can Improve Performance, but Their Effects Vary

Research syntheses generally support a positive relationship between appropriately designed incentive systems and employee performance. Condly et al. (2003) reported an average performance improvement of approximately 22% across the incentive programmes included in their meta-analysis. Garbers and Konradt (2014) also found positive effects for individual and team-based financial incentives.

These findings support the use of incentives as a potential performance-management tool. However, the results should not be interpreted as evidence that every incentive programme will produce the same improvement. Differences in tasks, employee characteristics, reward structures, and measurement methods can influence outcomes.

8.2 Financial and Non-Financial Rewards Serve Complementary Functions

Financial rewards may provide a clear and measurable incentive for achieving targets. Non-financial rewards may contribute to employees' sense of recognition, competence, belonging, and career development.

A balanced approach can address both immediate performance objectives and longer-term employee development. For example, a performance bonus may recognize measurable achievements, while constructive feedback and training may help employees sustain and improve their performance over time.

8.3 Performance Quality Requires Particular Attention

Organizations often use quantitative indicators such as sales volume, production output, and the number of completed tasks. However, employees may respond to these indicators by prioritizing measurable outputs over less visible aspects of performance.

Cerasoli et al. (2014) found that intrinsic motivation was more predictive of performance quality, while incentives were more predictive of quantity. This suggests that organizations should combine output targets with suitable quality measures, customer feedback, safety standards, and professional expectations.

8.4 Fairness Influences Employee Responses

Rewards are more likely to support constructive workplace behaviour when employees understand how they are determined and believe that the process is fair.

Opaque bonus decisions, inconsistent performance ratings, or perceived favouritism can weaken trust. Consequently, transparency and procedural consistency should be treated as core components of reward-system design rather than as administrative details.

8.5 Excessive Reliance on Incentives May Create Unintended Consequences

A reward programme that focuses exclusively on short-term targets may encourage undesirable competition, reduced cooperation, or neglect of tasks that are difficult to measure.

Organizations should therefore monitor both intended outcomes and possible adverse effects. Relevant indicators include employee well-being, customer satisfaction, work quality, collaboration, absenteeism, and employee retention.

8.6 Integrated Reward Systems Are More Appropriate Than Single-Method Approaches

The literature suggests that rewards should be designed according to organizational objectives and job requirements rather than relying on a single universal incentive model.

A practical system may combine fair base compensation, achievable performance-linked rewards, meaningful recognition, development opportunities, and regular feedback. The balance should differ according to whether the work primarily requires measurable output, collaboration, creativity, professional judgement, or service quality.

9. Proposed Conceptual Framework

The following framework summarizes the relationships examined in this paper.

Independent variables:

- Financial rewards.
- Non-financial rewards.
- Individual incentives.
- Team-based incentives.

Potential mediating factors:

- Employee motivation.
- Job satisfaction.
- Employee engagement.

Potential moderating factors:

- Perceived fairness.
- Task complexity.
- Organizational culture.
- Transparency of reward criteria.

Dependent variable:

- Employee performance, measured through productivity, work quality, goal achievement, and contextual performance.

The proposed framework suggests that rewards and incentives may influence performance directly and indirectly through employee motivation and

engagement. The strength of these relationships may depend on fairness, task characteristics, and the organizational environment.

This framework is proposed for future empirical testing; it is not presented as a statistically validated model in the current paper.

10. Research Hypotheses for Future Empirical Testing

The following hypotheses may be tested in a subsequent quantitative study:

H1: Financial rewards are positively associated with employee performance.

H2: Non-financial rewards are positively associated with employee performance.

H3: Employee motivation mediates the relationship between rewards and employee performance.

H4: Perceived fairness positively moderates the relationship between rewards and employee performance.

H5: Team-based incentives are positively associated with team performance when rewards and contribution criteria are perceived as fair.

These are proposed hypotheses, not confirmed findings of the present literature review.

11. Managerial Implications

The review provides several practical recommendations for human resource managers and organizational leaders.

First, organizations should establish clear and measurable performance criteria. Employees need to understand what is expected of them and how their performance will be evaluated.

Second, reward allocation should be transparent and consistent. Clear communication can reduce uncertainty and strengthen employees' confidence in the process.

Third, organizations should combine financial and non-financial rewards. Fair compensation should be complemented by recognition, development opportunities, constructive feedback, and appropriate career progression.

Fourth, reward systems should reflect the nature of the work. Quantity-based incentives may be appropriate for certain measurable tasks, while roles requiring creativity, professional judgement, safety, or collaboration may need broader performance indicators.

Fifth, organizations should review incentive programmes periodically. Managers should assess whether rewards improve not only output but also quality, employee well-being, teamwork, and longer-term organizational outcomes.

Finally, employee feedback should inform reward-system design. Employees may differ in their preferences for financial benefits, public recognition, flexibility, learning opportunities, and career progression.

12. Limitations of the Study

This paper has several limitations.

First, it adopts a narrative review approach rather than a formal systematic review with a documented search and screening protocol. Therefore, the included literature should not be interpreted as an exhaustive representation of all available studies.

Second, the paper does not collect primary data from employees or organizations. Its conclusions are based on the interpretation of previously published research.

Third, the reviewed studies may differ in industry, country, occupation, incentive structure, and performance measurement. Consequently, findings from one setting may not generalize directly to another.

Fourth, the paper does not conduct a new quantitative meta-analysis or independently calculate pooled effect sizes.

Future research should address these limitations through transparent systematic reviews, longitudinal studies, and empirical investigations across different industries and organizational settings.

13. Directions for Future Research

Future researchers could examine the impact of reward systems in specific sectors such as banking, manufacturing, healthcare, education, information technology, and retail.

Comparative studies could investigate whether financial rewards have different effects on employees at different organizational levels or with different job responsibilities. Research could also examine how hybrid work arrangements, digital performance monitoring, and changing employee expectations influence reward preferences.

Longitudinal studies would be particularly valuable for determining whether performance improvements continue after an incentive programme has been implemented. Researchers should also investigate unintended outcomes, including excessive competition, perceived inequity, stress, and reduced attention to non-incentivized responsibilities.

Finally, future studies could test the proposed conceptual framework using employee surveys, objective performance indicators, and appropriate statistical methods.

14. Conclusion

Rewards and incentives are important instruments in human resource management because they can influence employee motivation, work behaviour, and organizational performance. The literature reviewed in this paper generally supports a positive relationship between appropriately designed incentives and performance, although the strength and nature of the relationship vary across contexts.

Financial rewards can provide a direct incentive for achieving measurable targets, while non-financial rewards may support recognition, competence, engagement, and professional development. Neither approach should be treated as universally sufficient. Instead, their effectiveness depends on factors such as fairness, transparency, task complexity, and the extent to which employees understand the relationship between effort, performance, and rewards.

The review also highlights the continuing importance of intrinsic motivation. Organizations should seek to encourage achievement without unnecessarily undermining autonomy, collaboration, work quality, or professional commitment.

In conclusion, an effective reward management strategy should combine fair financial compensation, suitable performance incentives, meaningful recognition, and opportunities for employee development. Organizations that evaluate both quantitative and qualitative performance outcomes are better positioned to design reward systems that support sustainable employee and organizational success.

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