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### THE IMPACT OF REWARDS AND COMPENSATION ON EMPLOYEES' PERFORMANCE

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#### **ABSTRACT**

While employees need reasonable amounts of disposable income on their side, organisations need super profits for their sustenance hence the paradoxical nature of compensation administration. This study is meant to ascertain the relationship between compensation and employees' performance. The study aims to find out how satisfactory compensation enhances employee performance. Quantitative survey techniques used for key informants in a sample drawn from five small and medium size organizations in Jeddah city, Saudi Arabia employees. The study found that there was positive correlation between the employee's compensation and their performance. The impact of reward administration on worker performance can be appropriate to those who develop their inspiration from it. Consequently, to say that reward influence workforces to perform may be fictitious and overstatement. Human requirements are dynamic in nature. For the sustainability, a compensation strategy should also illuminate the connexion between remunerations, salaries and reimbursements to the crucial success dynamics of the businesses. Against such a complex background of varied effects of compensation on employee performance several arguments can be put forward: A remuneration policy should entail other components of variable pay that is pay, which is linked to the performance of employees. This inevitably results in the direct correlation between pay and performance. Thus, employees must be made to believe that greater efforts result in greater rewards.

CCS CONCEPTS • Insert your first CCS term here • Insert your second CCS term here • Insert your third CCS term here

*ACM Reference Format:*

First Author's Name, Initials, and Last Name, Second Author's Name, Initials, and Last Name, and Third Author's Name, Initials, and Last Name. 2018. The Title of the Paper: ACM Conference Proceedings Manuscript Submission Template: This is the subtitle of the paper, this document both explains and embodies the submission format for authors using Word. In Woodstock '18: ACM Symposium on Neural Gaze Detection, June 03–05, 2018, Woodstock, NY. ACM, New York, NY, USA, 10 pages NOTE: This block will be automatically generated when manuscripts are processed after acceptance.

## INTRODUCTION

Workers involvement in the business is a foremost power for the organizational success. The application of compensation and reward system provides continuous inspiration which encourages the worker to do the job effortlessly and to mark their objectives [1]. The influential culture of a workplace is very helpful to enhance the performance of the worker which can lead to the objective achievement and improve the overall efficiency of an organization.

Apart from this, the management also takes of other motivational approaches such available resources, leisure time, entrainment initiatives between work hours and making a friendly relationship with every worker within the organization. This effectively helps in enhancing overall outcome for the employees as well as intensifies their effort and loyalty towards the organization. Apart from this, more importantly, policies like increment, reward program and a satisfactory amount of inducements is motivated employees and it also increases the commitment of the employees towards the business goal and objectives. The attainment of reward and compensation after the accomplishment of challenging task brings strong behavioural change and this change can inspire other workers to provide their maximum effort to reach that position [2].

It is very important to transform the raw potential of all workers into skilled outcome by providing effective training and improvement program. The performance must be accomplished as per the prerequisite and the suitable way must be delivered for the improvement that will enhance the effectiveness of every worker as well help to upsurge the overall output of the organization [2]. In other words, it is essential for the organization to have quality performance and skilled labour in order to compete with the current market situation. According to Ledford [3], with the help of effective performance, the functional area will be improved and a competitive advantage will be available for the company that will help to attract the maximum number of customers and it will also ensure the profitability in the market [3, 4].

Employee's performance can be defined as the ability of the worker to achieve their personal or organizational goal by using the organizational resources professionally and effectively. According to Mattone [5], there are several strategies and method commenced by the HRM department to preserve standard working and work culture which will aid in attaining the directed goal of the establishment. Profit sharing concerning of a specific target helps in understanding the business processes and developments which motivates

workforce sets clear path to accomplish objectives as per the quantified guidance [5, 6].

Rewards and Compensation is a crucial aspect that greatly encourages employee's acuity towards their effort and also provides a state in mind of contribution to the overall development and growth of the organization. It can be perceived that after employing the Compensation and Reward approach into a corporation the development can be seen stages [7, 8]. In order to keep the performance of the workforce high, management of an organization divided the complete system of measurement in to stages and through categorization into stages, it is easy for the management personnel to focus every stage carefully in order to gain successful outcome [9, 10]. Therefore, this study aims to determine the relationship between compensation and employees' performance from several organizations in Jeddah city, Saudi Arabia.

## **METHODOLOGY**

There are two research approaches which are commonly used for conducting the study which are inductive and deductive approach. The current study is based on understanding the impact of reward and compensation on employee's performance, thus deductive approach is implemented. The understanding of the relationship over the performance and compensation will help in understanding of the research topic in more detailed manner [11].

### ***Research Design***

The explanatory research design helps in demonstrating different type of events and the occurrence and also their effect on the research studies. The descriptive research targets to describe the happening of the different incidence and their details with clear explanation of the research topic. The explanatory study implemented in the present study as its main objective is to explain the relationship between compensation and performance.

### ***Primary and Secondary Data Sources***

The online questionnaire survey process is employed for obtaining direct information from a pre-selection sample compensation of primary data. The analysis of the primary data according to the available theories and models generates secondary sources. In this purpose, different online and offline sources were used such as journals, previous research work, blogs, books, articles and websites in relation to the impact of reward and compensation on employee's performance.

### ***Population and Sample Size***

The population comprises employees and the manager of five small and medium size organizations in Jeddah city, Saudi Arabia. The target population in this respect is the general population which helps generalising the conclusion for the research. There are 100 employees and managers responding to questionnaire.

### ***Data Collection Procedure***

The research questionnaire is prepared and sent via an electronic device. The data was collected using the mobile survey from the employees of the selected organization. The data was then saved in the excel workbook. This helped the researcher to clear the data and analyse to investigate the objective of the study.

### ***Data Analysis***

Once the measuring instrument was administered, the data collected was systematically organized through coding to facilitate analysis. The data was collected using the mobile survey which was then saved in excel file. The data after the cleaning was analysed using Microsoft Excel based on graphical presentation and frequency tables. This is deemed appropriate because they would enable the researcher to make inferences about a population based on the results of a representative sample [12].

### ***Result and Discussion***

A satisfactory compensation administration system has proved to be an important issue in the past decade in Saudi Arabia due to a hyperinflationary environment. This led to widespread strikes and in some instances company closures or work stoppages. It is, therefore, imperative especially against such a background to analyse the relationship between compensation administration and employee performance. The purpose for this study is to analyse whether their success is attributable to a satisfactory system of compensation administration.

### ***Demographics Characteristics of sample***

According to the demographic characteristics of the respondents participated in the survey process, 77% of the sample population are male and rest 23% of the population are female.

Considering the age of the sample population, the maximum percentage of the respondents lies in the age group of 31- 40 years (39%), 21% of the respondents are between 51 to 60 years, 20% of the sample population are in between 20 to 30 years and 16% of the respondents lies in the age group of 41 to 50 years. The least percentage (4%) of the participants are more 60 years of old. This shows sample population involves every age category, which will help in understanding the perception of employees of different ages.

According to the level of education of the respondents, 58% of the sample population have bachelor degree. 37% of the sample population have master degree and 5% of the population have other degree. Therefore, most of the sample population are educated and provided clear perception about the situation regarding impact of reward and compensation on the performance.

The sample population involves people from different occupations, they are mainly teachers, HR manager, Treasurer, Retired Employee, Pharmacist, Investment banker, Business Development Manager and Facilitator, Medical lab specialist, Relationship manager, Accountant and many other. This wide job background of the sample population has helped in providing extensive knowledge and experience regarding the impact of reward and compensation on their work life. This essentially provided an effective info which leads the research towards successful outcome.

The length of the service plays vital role in understanding the perception of the organization towards their employees. Here, the majority of the respondents have enough job experience to provide their valuable knowledge for successful analysis of the research topic. 33% of the sample population have more than 15 years of job experience, 28% of the respondents have job length in between 5 to 10 years and 25% have job experience less than 5 years. Apart from this, only 14% of the sample population have the experience of 11 to 15 years.

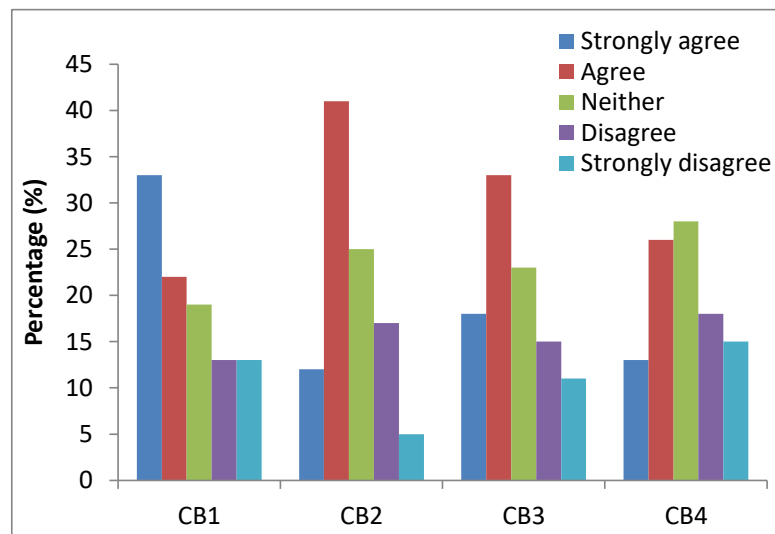
### ***Main Variables***

According to Figure 1, CB1 refers to employees in this job regularly (at least once a year) receive a formal appraisal of their performance. Considering gaining of formal appraisal of the performance in the regular job, 33% of the population strongly agree with the statement and 22% of the respondent agree that they receive formal appraisal in their regular job. 19% of the sample population neither agree nor disagree with the given statement. Around 13% of the sample population strongly disagree and 13% disagree with statement that they get regular appraisal on their performance. This shows majority of the respondents receives regular formal appraisal on their performance.

According to Figure 1, CB2 refers to performance appraisals are based on objective quantifiable results. According to survey, when respondents asked about performance appraisals are based on objective quantifiable results, 41% of sample population agree that they receive performance appraisals on objective quantifiable results. 12% of the respondents strongly agree this statement. 25% of the sample population neither agree nor disagree with the survey question. 17% of the sample population disagree and 5% of the population strongly disagree with given statement. This proves that majority of the respondent receive performance appraisals are based on objective quantifiable results.

According to Figure 1, CB3 refers to pay raises for employees in this job are based on job performance. According to survey, 33% of the respondents agree that their pay increases according to job performance and 18% strongly agree with the statement. 23% neither agree nor disagree with the said statement. 15% of sample population disagree and 11% strongly disagree that they receive pay raises in this job based on job performance. Basing one's arguments on the foregoing findings one can argue that compensation can be said to have varied effects on employee performance. It does not only have varied effects but it is also complex and dynamic in nature.

According to Figure 1, CB4 refers to employees in this job have the opportunity to earn individual bonuses (or commissions) based on the profit of the company for productivity, performance, or other individual performance outcomes. Focusing on the opportunity to earn individual bonuses based on the profit of the company for productivity, performance, or other individual performance outcomes, the aggregate 26% agree the statement. The item with the highest 28% neither agree nor disagree opportunity to earn individual bonuses. The aggregate 18% of the sample population disagree with the statement. The overall result shows that giving allowance is a motivation for work commitment.



**Figure 1:** Respondent's feedback on compensation and benefits

According to Figure 2, EP1 refers to employee almost always put in more effort than what can be characterized as an acceptable level of effort. When respondents are asked did they put more effort than what is characterized as an acceptable level of effort, 32% of the sample population agree and 18% of the participants strongly agree with the statement. 28% of the sample population neither agree nor disagree with the given questionnaire. On the other hand, 15% disagree and 7% strongly disagree with the statement that they provide more effort than acceptable level of effort in their organization. This clarifies that most of respondent provide more effort than the acceptable level of effort. Workers should also have a reasonable control over efforts and rewards; they are also disincentives for non-performers. Moreover, this scheme may be difficult or impossible to implement due to technical considerations or psychological circumstances, which might be prejudicial to output.

According to Figure 2, EP2 refers to employee delivers higher quality than what can be expected. Considering the quality of the performance, 39% of the sample population agree that they provide higher quality of performance than expected and 21% of the respondents strongly agree with the statement. 21% of the sample population neither agree nor disagree with the question. On the other hand, 12% disagree and 7% strongly disagree with the statement that they deliver more than expectation. Therefore, from the overall information

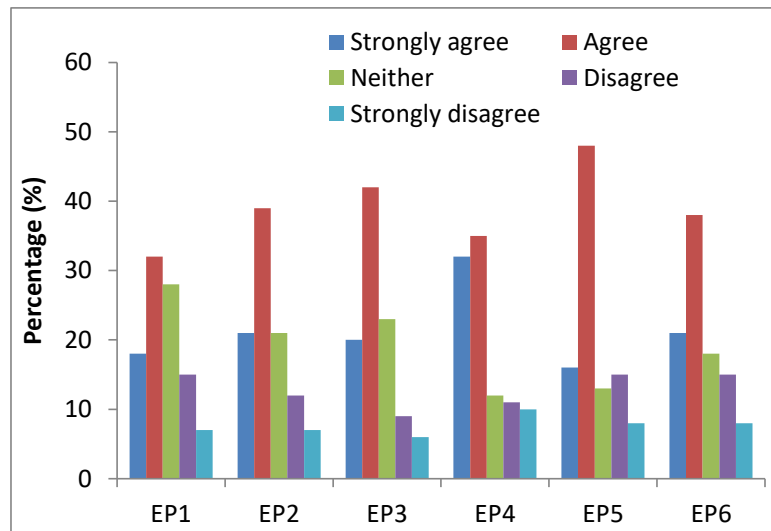
gained, it is clear that maximum of the population provide effort more than expectation.

According to Figure 2, EP3 refers to employees intentionally expend a great deal of effort in carrying out my job. When the sample population is asked did they intentionally expend effort in carrying out the job, 42% of the sample population agree and 20% of the population strongly agree with given statement. 23% of the sample population neither agree nor disagree that they expend their effort in carrying out their desired task. 6% and 9% of the sample population strongly disagree and disagree with the stated statement. This clarifies that majority of the respondents in today's organizations intentionally expend their effort for successful completion of their job. This may due to various reasons such level of satisfaction, reward, appraisal and various polices of the organization. The direct, indirect and non-financial compensation and promotional strategies which give emphasis on commitment and teamwork that leads to organizational identity so as to develop their ideas and entrepreneurial skills that could be lead to the future organizational vision.

According to Figure 2, EP4 refers to employees try to work as hard as possible. When participants are asked did they work hard as possible, 35% of the sample population agree and 32% strongly agree with the statement. 12% of the sample population neither agree nor disagree with the given statement. Apart from this, 10% and 11% of the respondent disagree and strongly disagree that they work hard in their organization respectively. This clarifies that majority of the population works hard to accomplish their set task. This means the today's organizational culture provides enough mental and economic support to their employees. Furthermore, HR emphasized workplace practices related with incentives such as monetary and non-monetary incentives.

According to Figure 2, EP5 refers to the quality of employee work is top-notch. When sample population is asked about their priority of quality work in accomplishment of set task, 48% of the respondents agree that their top priority of work quality. 16% of sample population strongly supported that their work quality is at top-notch. 13% of the sample population neither agree nor disagree with the given statement. 15% disagree and 8% strongly disagree with stand that their work quality is at top-notch.

According to Figure 2, EP6 refers to employees often expend extra effort in carrying out my job. When respondents are asked did they put more effort than what is characterized as an acceptable level of effort, 38% of the sample population agree and 21% of the participants strongly agree with the statement. 18% of the sample population neither agree nor disagree with the given questionnaire. On the other hand, 15% disagree and 8% strongly disagree with the statement that they provide more effort than acceptable level of effort in their organization



**Figure 2:** Respondent’s feedback on employee performance

Table 1 shows the analysis of correlation between the compensation of the employees and the performance of the employees; it can be observed the value of correlation coefficient was 0.615958. This indicates that there exist a positive correlation between the compensation of the employees and the performance obtained from them.

**Table 1:** Correlation between the performance and compensation of the employees

Variable	Performance	Compensation
Performance	1	-
Compensation	0.615958	1

**Overall Discussion**

The survey clearly states that other things being equal organisations that can motivate their employees are more likely to achieve their organisational goals. It can be also said that that almost every executive agree that people are the most important assets. The economic pay off from work may frequently be the main focus of concern rather than rewards stemming from prestige or intrinsic rewards. Therefore, incentives are not only designed to attract people who are capable but also to motivate them towards superior performance and retaining them over an extended period of time.

Against such a complex background of the varied effects of compensation in employee performance one can note that while compensation indeed affects performance of employees designing the same has several implications. Pre-requisites such as chauffeur driven car, corporate aircraft, home security, company apartments, club membership and entertainment may also serve the purpose of attracting as well as retaining employees. It is important to note that employees in their positions may work hard to be retained in their positions thereby boosting their performance. Therefore, the open pay



improves employee motivation especially those employees concerned with equity while secrecy arouses suspicions and demotivates employees.

The compensation policy in organizations in Jeddah City, Saudi Arabia is implemented by the human resources manager together with the administration manager. Their competence was evidenced by their ability to process salaries timeously, carrying out an effective job evaluation exercise which had been agreed upon by management and worker committees as well as implementing quarterly salary reviews so as to be in line with the rate of inflation. This is largely attributable to disposable income left to the employees.

According to the survey employees are considered as one of the most important assets in the company; therefore, they should be professionally and excellently managed. One of the tools that the company is using to entice, keep and encourage people or employees is Compensation and Benefits Management. Compensation was designed to provide relief to workers who suffer injuries or aggravations of pre-existing injuries as result of work-related condition. The survey says that compensation has wider meaning than what mentioned above. Compensation is not paying to the employee once he got injured; but it is given to the employee as part of motivate and retain the employee in the work place, the higher the compensation and benefit given to the employee the more happier the employee is at his work place and that lead to have satisfied employees and successful work environment and its contains direct incentives and indirect incentives.

On the other hand, benefits which is an important part in the employees' performance and make high turnover for the firms, the main purpose that the employee is working hard and performed good is to get good cash with pluses, the pluses can be define as employees benefits. It's known as fringe benefits, we can define a fringe benefit as nonfinancial benefit that is given to the employee in addition to his monthly or weekly salary. Employee's benefits as a whole have no direct effect on employee's performance, however, poor benefits will lead to low performance and that will lead to low satisfaction level and that will increase absenteeism in employees and the outcome will decrease [13].

It is clear from the survey that, compensation plays an important role in those organizations that wish to reach their objectives and their goals. If the firm or company do not manage properly this aspect of Human Resources department and activity very well, it will turn on a negative impact on their employees performance and it might lead to low productivity and outcome from the employees because they are not getting a proper compensation and benefit to motivate them to work harder, all companies and organizations those who have a good compensation and benefit facilities they are more productive than others because they study and knew the secret key of motivation and retain the employee.

The measurement of how employees performance are positive and productive may depend on how much the organization are addressing their need for

status, security and their survival need as postulated in the organization hierarchy of needs. Compensation and Benefit have a close relationship to employees' performance [14]. This is due to the fact that job applicants accept the job offer based on the salary and allowances and the incentives which the employer will provide them. If the compensation and benefits were low or not satisfied they might accept the offer or reject it seeking for better offer and benefits while the people who accept the offer with low salary and benefits they might end up by low productivity and will lead to unsatisfied clients then will end up with an unhappy employer. Those results all of them linked with low compensation and benefits in the company, that's why the study focus on how to provide good compensation and benefits offer to the employee to attract them and motivate them so their performance will be with high turnover and they will be satisfied in their job.

Therefore, companies in Jeddah City try their best to retain the good employees as they find it much cheaper to retain rather the existing employees rather than hiring new recruits. Retaining employees is cheaper since the company will not need to spend again on the recruitment fees and the trainings. It should be kept in mind that employees work for very long hours and they have to fully satisfy their client's needs. The employees have very tight deadlines and do not have the work-life balance; it is also known that they are not well paid.

## **CONCLUSION**

This study suggests that there is no best way of enhancing employee performance. To say that compensation drives employees to perform better may be an overstatement and fictitious. Human needs are dynamic in nature let alone complex. Each individual does not live in a vacuum nor does he/she live in a world of their own where environmental factors do not manipulate them. This inevitably suggests that human needs are multifaceted and only a multifaceted approach to the satisfaction of those needs is required for them to realise their potential. Therefore, there is need for a contingency approach to compensation.

## ***Acknowledgment***

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