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ALIGNING MONETARY REWARD PRACTICES TO PERFORMANCE MANAGEMENT SYSTEM

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Abstract:

Developing individual motivation and performance is a significant source of the organizational performance. Currently, almost all organizations develop and implement their project management system (PMS) and the monetary reward practices (MRPs), aiming to manage its human resources and talent effectively through improving employee's motivation and performance. By providing the research-based thinking on aligning MRPs to PMS, the present paper suggests that PMSs, when properly aligned with MRPs, can be an effective tool in influencing on employee performance, therefore positively contribute to the organizational success and competitive advantage.

1. Introduction

Strategic human resource management (SHRM) focuses on improving organizational performance and effectiveness through human resource (HR). The literature on SHRM has shown the importance of having-motivated employees in creating and sustaining an organization's performance [29]. Performance management system (PMS) and the monetary reward practices (MRPs)³ are heavily used to transform employee's talent and motivation into a strategic advantage [2]. A number of studies [4], [11], [14], [17] have argued that performance management (PM)⁴ plays a crucial role in the organization's success and competitive advantage through aligning individual performance with strategic goals of an organization⁵. In addition, rewards can be an

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³ Rewards can be generally categorized as either non-monetary or monetary rewards. As shown in the title, this paper mainly focuses on the monetary rewards.

⁴ Performance management can be broadly defined as a continuous process of identifying, measuring, and developing the performance of individuals and aligning performance with the strategic goals of the organization (Aguinis 2009a).

⁵ For instance, Boswell (2006) has shown that employees' understanding of how to contribute to the organization's strategic goals is important to achieve and sustain superior organizational performance. Moreover, Sumlin (2004) presents that PMSs affect financial performance, productivity, product or service quality and customer satisfaction of organizations.

important factor of motivation and performance which, in turn, can lead to returns in terms of organization-level performance [7].

In general, almost all organizations have some forms of the PMS⁶ and MRPs that aim to achieve important objectives such as motivating performance and supporting implementation of business strategies [19]. Unfortunately, many organizations fail to achieve the desirable outcomes through their PMSs and the existing MRPs [4], [7]. A potential reason is that the monetary rewards practices in such organizations are less contingent on performance, therefore weakens effectiveness of PMSs.

This paper argues that systematically tying monetary rewards to the performance can lead more effective PMSs with regarding to motivation. This argument will be developed through a research-based critical review of PMS and MRPs, and the potential benefits of their better alignment in increasing effectiveness of the PMSs. As an empirical implication of the argument, University of Adelaide is selected as a case study to discover how the organization implements PMS and reward practices.

The remainder of the paper is organized as follows. Section 2 discusses the role of MRPs in improving the effectiveness of PMSs. Section 3 applies the conceptual framework into the case of the University of Adelaide. Finally, section 4 concludes the paper with implications for aligning MRPs with PMS.

2. The potential role of MRPs in building effective PMS

2.1. A research-based critical review of PMS and MRPs

This section provides main features and characteristics of PMS and MRPs that are likely to allow them to be successful, and then attempts to identify possible linkage between the PMS and MRPs.

PM be a strategic approach to deliver success to organizations by improving performance of the employees and developing the capabilities of teams and individuals' contributions⁷ [8]. A well-designed and executed PMSs potentially benefits all of employees, managers, and organizations⁸ [4].

Although there is less clarity on what practices make PMSs even more effective, an organization should endeavor to build a system that can be successfully implemented in order to produce positive contributions for individual, team, and organizational performance [3]. There are several design characteristics that potentially

⁶ Results of a survey of 278 organizations have shown that more than 90% implement a formal PMS (Cascio 2006).

⁷ PM therefore has two specific features. First, the PM is an ongoing (i.e., never-ending) process of setting objectives and goals, monitoring performance, giving, and receiving ongoing coaching and feedback (so that performance can be improved). Second, PM creates direct link between employee performance and organizational goals and makes explicit employees' contribution to the organization (Aguinis 2009c, p. 1/3).

⁸ Same as other management practices, execution of a PMS is a key to maximize the benefits resulting from the PMS. Low-quality and poorly implemented PMS does not necessarily produce benefits, and instead it may cause disadvantages and negative consequences for the participating parties, such as losing employees, wasting time and money, damaging relationships among involved individuals, lowering self-esteem, decreasing motivation to perform and so on (Aguinis 2009c, pp. 1/6-1/7)

can influence the effectiveness of PMSs. For instance, Aguinis et al. (2012a) highlight five PM universals leading to effective PMS regardless of cultural contexts. The five universals are linked to three phases of the PM cycle (i.e., PM process). The universals include (i) creation of job descriptions in line with organizational goals (ii) training regarding PM, (iii) performance measurement, (iv) performance feedback, and (v) reward allocation. The first PM universal refers to the system pre-implementation phase, the PM universals mentioned in (ii)-(iv) refer to the system implementation phase, and last PM universal refers to the system outcome phase.

Rewarding⁹ is a crucial aspect of SHRM implementation since it affects employee motivation and helps to attract and retain valuable employees. Motivated employees have much higher task performance and contextual performance than less motivated employees. The reward management process therefore plays a vital role in improving organizational performance by enhancing individual performance. Rewards can be generally categorized as either non-monetary (i.e., intrinsic) or monetary (i.e., extrinsic) rewards¹⁰. The rewarding for desired performance boosts employee's motivation to perform desired behaviors (Härtel and Fujimoto, 2010: p. 287-289).

Aguinis et al. (2013) propose five general principles to guide the design of successful monetary reward systems: (i) define and measure performance accurately, (ii) make reward contingent on performance, (iii) reward employees in a timely manner, (iv) maintain justice in the reward system, and (v) use monetary and non-monetary rewards.

From the research-based recommendations, it is clear that principles in (i) and (ii) suggested by Aguinis et al. (2013) should be systemically aligned with universal in (v) proposed Aguinis et al. (2012a) in order to build both effective PMSs and successful monetary reward systems. Given the focus of this paper on the importance of MRPs in the effective PMS, next section concentrates on how the alignment of MRPs with PMS potentially make effective PMSs.

2.2 Making effective PMS: Aligning MRPs with PMS

In this section, I argue that implementing contingent MRPs as part of PMSs increases effectiveness of the PMSs.

Regardless of the nature of rewards, they should be meaningful and important to those receiving them. In particular, monetary rewards should be tied to performance as closely as possible, and not to irrelevant factors (e.g., number of years in the organization or unquestionably following a supervisor's directives) in order to lead motivation and high performance of employees [28]. Lawler (2003) has empirically shown

⁹ A reward can be defined as an item, either tangible (end of the year bonus) or intangible (employee of the month award) that is received in recognition for behavior and output [16].

¹⁰ Intrinsic rewards are sourced from inside, or internal to, the individual and are generally intangible, though they can be tangible. Extrinsic rewards are sourced outside, or are external to, the individual and are generally tangible, though they can also be intangible [16].

that performance appraisal systems are more effective if there is strong connection between the results of PMS and reward system of the organization. In case of a weak connection between the monetary rewards and performance, employees are less likely to believe that increasing effort will result additional pay, thus leading to lower level of motivation as well as performance [7].

Aguinis et al. (2013) propose three guidelines for successfully implementing the practice of making rewards contingent on performance. First, monetary rewards must differ significantly based on performance. If there is a minor difference in the amount of the rewards between high performer and low performer, employees are not likely to increase their motivation and performance levels [22]. Second, an explicit communication to employees about that they are being paid differently due to performance differences and not owing to other reasons. Employees' perceptions of whether rewards are contingent on performance drive them to exert more or less effort [28]. To increase this perception, organizations need not only to build-up a performance-contingent monetary reward practice, but also explicitly communicate the nature of the rewards. Third, cultural dimensions should be taken into account. Aguinis et al. (2012a) note that cultural dimensions (i.e., individualism or collectivism)¹¹ must be considered well when aligning rewards allocation with implementation of PMSs. For instance, in individualistic countries, employees tend to prioritize their own interests above the interests of their involved groups. Therefore, Aguinis et al. (2013) state that individual monetary rewards will be more successful in more individualistic relative to more collectivistic societies. However, in case of highly collectivistic cultures, managers should avoid the perceived pay inequality¹². A reason is that employees in the culture think that the unfair behavior weakens their status within their joined groups in which they strongly make emotional ties. As a result, collectivists are likely to engage in higher levels of unethical work behaviors (*e.g., stealing, and damaging property*) to compensate the perceived injustice [23]. The adverse effects are less likely to occur when rewards are primarily allocated based on the performance of collectives (*e.g., teams, units, departments, and organization*) rather than individual performers.

Furthermore, in order to avoid uncertainty, the link between performance and rewards should be defined clearly, unambiguously and be transparent to among all employees. For example, the implementation of contingent pay systems needs to include clear and detailed description of what type of behaviors and results at the individual and collective level will lead what specific types of rewards [5]. If the detailed link is not provided, employees in high uncertainty avoidance cultures may experience contingent pay systems as a source of distress and anxiety, leading to unethical

¹¹ People in countries such as the United States and Australia, which are more individualistic, give great value on individual achievement. Instead, people in countries such as China and Guatemala, which are more collectivistic give great value on group performance (Aguinis et al. 2013: p. 245).

¹² The equality can happen when there is large level of inequality in rewards across individual performers holding a similar position or doing the same amount and quality of work (Aguinis et al., 2012: pp. 390-391).

work behaviors [18], [21].

Implementing PMSs that include contingent rewards is also one of the effective tools in retaining top talent¹³ and preventing competitors from stealing these employees, as an organization's important source of competitive advantage. Monetary rewards (*e.g., employee's salary and other financial compensation*) are very crucial for the retention of top talented workers who are particularly sensitive to whether they are receiving enough [6, 615]. For instance, as argued by Groysberg et al. (2004), top employer's performance may decline if adequate salary and rewards are not provided. In addition to the adequate salary, top performers expect to earn a great deal more than the average employee, and opportunities for compensation improvement. Trevor et al. (1997) has shown that high salary growth is associated with low turnover among this group.

The top performers' contributions to the organization should be measured properly and remunerated accordingly. Furthermore, the plans need to allow growth in monetary rewards that is matching with performance. As stated O'Boyle and Aguinis (2012), top performers are more productive compared to the average employee, so that their compensation should reflect higher productivity by not only being significantly higher, but also have the potential to increase with further improvements in performance. As a result of implementing contingent reward plans in firms, top performers are more likely to stay with the firms [24]. However, without adequate and well-managed compensation mechanisms embodied in contingent reward plans, top performers are increasingly willing to leave. Competitors can easily steal such individuals by offering more satisfying option of contingent rewards [13].

3. Case study: The University of Adelaide

In this section, I argue that the PM framework in the University of Adelaide, consisting of better reward practices can be recognized as a benchmark PMS for other universities.

The University of Adelaide was established in 1874, and currently over 25000 students and 3500 staff members constitute vibrant and diverse university community. The university has defined its human resource management strategy as 'to work with the University community to *build capability of our people* in support of an *excellent student experience* and enable all *staff to be and perform at their best*'¹⁴. To achieve this strategy, the university has developed and implemented related policies and procedures. As one part of such policies and procedures, the university has defined its performance management framework to improve organization wide performance by supporting and improving the performance of its every individual staff member.

¹³ Success comes from being able to attract, motivate, and retain a talented pool of workers. With a finite number of extraordinary employees to go around, the competition for them is fierce [9, 37].

¹⁴ Related information about the university is mainly taken from the source: <http://www.adelaide.edu.au/hr/>.

The PM framework of the university consists of five core activities such as (i) position descriptions, (ii) planning, development, and review, (iii) talent management, (iv) performance improvement and (v) reward and recognition that are ongoing and continues basis. Let us briefly discuss how the university implements these activities. First, as stated by Aguinis et al. (2012a: p. 389), position descriptions in the university are clearly aligned with the goals of the organization and highly specific and clear in terms of knowledge, skills, and abilities needed for the position as well as goals. Once the organization obtained right people for the right jobs, it comes to next stage of managing its employees effectively to create higher performance. Second, planning, development, and review (PDR) in the university includes establishing work and behavior objectives, development planning, discussing career opportunities, and regular monitoring and reviewing performance. Providing development opportunity (*i.e., adequate training*) to all participants in the PM process is a crucial determinant of effective PMSs. In addition, the regular monitoring and reviewing performance is an essential component of all effective PMSs [5]. Third, the talent management allows the university to create a broad pool of ready talented workers. The talent war is a 21st-century reality whereby organizations of all sizes, across all industries, compete to hire and retain scarce human resource [6]. The university generally implements most of the best principles within PMS described by Aguinis et al. (2012b) such as creating and maintaining individualized development plan, implementing contingent rewards, and providing clear advancement opportunities to retain top talent. Fourth, performance improvement in the university is day-to-day basis activity, regular informal and formal conversation between manager and staff member through coaching, mentoring, and monitoring performance progress. It is in line with the better practice of delivering performance feedback universal, described by Aguinis et al. (2012a: p. 389).

Table 1

Rewards and recognitions in the University of Adelaide

Types	Description
Informal reward and recognition	<ul style="list-style-type: none"> Financial or non-financial and are spontaneous and sincere appreciation of individual or group efforts.
Formal financial rewards	Pre-determined rewards and covered by specific policies such as <ul style="list-style-type: none"> Bonus payment policy Salary increment policy Responsibility loading policy
Formal University-wide rewards	<ul style="list-style-type: none"> Excellences are by nomination and are assessed by a committee. The awards are usually presented at an annual ceremony.
Extraordinary rewards	<ul style="list-style-type: none"> The reward falls outside the formal range of rewarding mechanisms and are awarded for performance and achievement that has brought significant value to the University.

Source: The University of Adelaide, 2006, Guide on Reward and Recognition.

Last, but not least, reward practices at the university drives motivation to all employees and encourages them to perform at their best. The existing practices are fairly in line with all five principles originated by Aguinis et al. (2013) to guide the successful monetary reward systems. For instance, the practices apply equally and transparently to all staff members across the university. The university recognizes achievements and exceptional performance that supports the university's value, goals and vision and implements four categories of reward and recognition practices, summarized in Table 1. Generally, exceptional performance is linked to the PDR process and the individual objectives established under the process. Through appropriate objective setting, exceptional performance is identified when an individual consistently exceeds most objectives. In such cases, larger informal rewards or any of the formal rewards are applied [26, 4]. There are also timely rewards that are given as soon as possible after the recognition of exceptional performance and have greater impact on individual or team motivations.

To successfully implement the performance excellence framework, the university provides detailed guideline including clearly defined responsibilities of each interacting parties on that course of activity, and toolkits such as templates to set objectives, make plan and review outcome. In addition, the university also acknowledges a list of benefits, potentially brought by the framework to individual staff members, to managers, as well as to the university.

The case study of the University of Adelaide therefore clearly shows that the performance management framework at the university can be viewed as a benchmark of effective combination of PMS and reward practices to improve the university's performance, an important element in sustaining competitive advantage.

4. Conclusion

For every single organization, human capital is a key determinant of its success, competitiveness, and sustainability. Developing individual motivation and performance is a significant source of the organizational performance. Currently, almost all organizations develop and implement their PMS and MRPs, aiming to manage its human resources and talent effectively through improving employee's motivation and performance. However, many organizations fail to achieve the desirable outcomes of their existing PMSs and MRPs. A likely reason is that monetary rewards are less contingent on performance, therefore weakens effectiveness of PMS. By providing the research-based thinking on aligning MRPs to PMS, the present paper suggests that PMSs, when properly aligned with MRPs, can be an effective tool in influencing on employee performance, therefore positively contribute to the organizational success and competitive advantage. Many of the universals and principles, leading to effective PMSs and successful MRPs discussed in this paper are being partially introduced in all types of organizations. However, the University of the Adelaide (as a case study) is

implementing them in integrated way, and as a result, the university’s PM framework be a benchmark of effective combination of PMS and better MRPs.

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