

The Relevance of Rewards in Performance-Based Management Control

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Abstract

This study aims to increase the understanding of how employees in different organizational contexts and hierarchical levels explain and appreciate, i.e. understand, their organisation's reward systems. Two different schools of thought have dominated the debate of how to conceptualize the role of rewards in performance management and organisation psychology literature: agency theory and self-determination theory. This study combines these schools and take both monetary aspects into account in line with what is prescribed in agency theory and more non-financial aspects that self-determination consider. The study applies a case study approach based on interviews and publicly available information from five Finnish organisations. The organisations analysed operate in different sectors, have different organisational structures, and use different reward systems. From a careful investigation of the five different organisations, a cross-sectional picture emerges showing the role of reward systems in companies, and their perceived importance as management control tools. The findings show that reward transparency and fair communication are the most significant factors affecting the experience of employees towards performance-based management control system that is used to allocate rewards. Monetary rewards should also be complemented and linked with social non-financial rewards to reach the decent management control acceptance and understanding in the organisation.

Keywords: Management control, rewards, agency and self-determination

1. Introduction

Which tools does management use to implement a strategy that motivates the staff to perform better? There is an overall agreement in recent research that a reward based system has a potential to help management design,

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Management Control (ISSN 2239-0391, ISSN_e 2239-4397), 2024, 2 – Special issue
Doi: 10.3280/MACO2024-002-S1002

implement and monitor performance based control indicators (Chatzoglou et al., 2024; Ariani, 2023; Shortland and Perkins, 2023; Patel et al., 2023). Rewards can be financial and non-financial. Financial based rewards are often regarded as the most powerful tool motivating the employee to perform better, especially top managers (Shortland and Perkins, 2023; Dagher et al., 2024). However, depending on contexts, non-financial rewards, such as recognition and job security are more relevant for low and middle level employees than monetary rewards per se (Chatzoglou et al., 2024; Larsson et al., 2022). Regardless of the type of the reward system in use, leadership style and communication play an important role in explaining to the employees why and how the reward system works, and can affect them (Meirinhos et al., 2023). Organisations use rewards in a variety of ways, as a management tool to communicate the type of performance they want employees to strive for to support their strategy. Rewards can also be used to show appreciation, motivate and encourage, engage skilled and competent staff and improve the well-being at work (Malek et al., 2020). The gap in the literature is to understand the way employees perceptions and attitudes towards rewards may affect the success of a reward system that their organisations have implemented (Lee, 2024). The aim of this study is to fill this gap by analysing how employees that work in different organizations explain and appreciate their organisation's reward systems.

Empirical data came from a case-study conducted in winter 2024 in five different organisations operating in Finland. The data were based on interviews and publicly available information online. The interviewees had different hierarchical levels. The organisations analysed operate in different sectors, have different organisational structures, and use different reward systems. From a careful investigation of the five different organisations, a cross-sectional picture emerges showing the role of reward systems in companies, and their perceived importance as management control tools.

Main findings show that reward transparency and fair communication are the most significant factors affecting the experience of employees towards performance-based management control system that is used to allocate rewards. Monetary rewards should be complemented with social rewards other than simply saying “thank you”! The next section explains the theoretical approach. It is followed by research method and data, findings, and discussion. The paper ends with a conclusion.

2. Theoretical framework

2.1 *Reward as a performance-based management control system*

Management control literature defines the concept of reward in a similar way: rewards are seen as a management tool that contributes to the success of an organisation and encourages employees to act in line with the organisation's strategy, goals and values (Siswanto et al., 2021; Malek et al., 2020). Rewards are paid in addition to normal salaries and depend on individual employee performance. Rewards have a wide range of effects, usually aimed at improving staff availability, retention, performance, satisfaction and motivation, all of which contribute to organisational performance (Rixom and Rixom, 2023). Discussions about rewards usually focus on tangible forms of rewards, i.e. financial rewards such as salary, bonuses, shares, incentives and special rewards and benefits, which are only one aspect of rewards. They are complemented by intangible/non-monetary rewards, which have become increasingly important in recent years. They can be divided into professional rewards, which include the job itself, flexible working hours, personal development and growth opportunities, and social rewards, which include status symbols, feedback, representation in the work community and various forms of recognition (Patel et al., 2023; Shortland and Perkins, 2023).

Reward can be defined as a two-way process between the organisation and its members, with benefits for both parties. Reward is also a management tool that communicates desired performance and supports the implementation of the organisation's strategy and the achievement of goals (Zhang et al., 2022). Rewards are often equated with incentives, where the person is guided to do something by a punishment or reward. Incentives can lead people to make choices that they would not make without incentives (Siswanto et al., 2021).

2.2 *Theoretical positioning*

Two different schools of thought have dominated the debate of how to conceptualize the role of rewards in performance management and organisation psychology literature: agency theory and self-determination theory (Shaw, 2024). Agency theory is recognised as one of the most dominant theoretical frameworks for studying reward systems. Agency theory examines the relationship between organisational success and rewards. It differs significantly from many other motivational theories, particularly in its view of people. Agency theory assumes that individuals are opportunistic, i.e.

constantly seeking to maximise their self-interest, and emphasises that reward policies play an important role in the success of organisations (Leroy, 2024)

Agency theory is seen as the standard justification for pay for performance because it attempts to reconcile the economic interests of employees and employers. Agency theory assumes that the employer seeks to maximise effort at the lowest possible cost, while the employee seeks to maximise autonomy and minimise effort at the highest possible wage. Agency theory assumes that money is the only thing that motivates and sees the relationship between employee and employer as a contract designed to reconcile the goals of both parties. According to agency theory, the most important thing is to pay the employee for activities that lead to the employer's goals (Shaw, 2024)

Celik et al. (2023) argue that employee rewards have a significant impact on employee performance and productivity. Employees' work values were negatively affected by fixed pay. According to the study, rewards have a positive impact on employee productivity, creating an opportunity for employers to use rewards as a motivational factor towards organisational goals. Saraswat (2022) found similar results, that is, an effective reward system has a positive impact on how employees perform.

In contrast to agency theory, self-determination theorists argue that people are intrinsically and naturally motivated to perform well when their works are under appropriate settings. Hence, financial rewards are not the only factors that motivates people to work well (Leroy, 2024). Within these two opposite positions, scholars continue to analyse a combination of financial and non-financial factor explaining the way reward systems motivate employees at different organisational levels (Leroy, 2024; Shaw, 2024). Reward systems are part of the organisation's business system. The effectiveness of the system depends on how all the parts work together and how they fit with the organisation's strategy and other business systems. The key is that the processes associated with reward work well, are consistent and transparent and are consistent (Leroy, 2024).

Effective reward practices are based on an understanding of the organisation's external environment and the purpose of the chosen reward system, supported by a clear structure. The structure includes processes, i.e. day-to-day procedures for applying the scheme and consistent decisions that support its operation, as well as information about them. The effectiveness and impact of the reward system is measured by employees in the workplace. A reward system is said to be effective when the organisation is satisfied with it and it works as intended (Agrawal, 2012).

While the role of rewards as an effective management and motivational

tool is widely recognised, it should be borne in mind that reward systems do not always produce the desired results in organisations. The effectiveness of rewards is based on reward knowledge, i.e. employees' understanding of what rewards are available in the organisation and how they are determined. Research shows that the stronger the reward culture, the more satisfied employees are with their pay, the fairer they perceive the pay system to be and the more likely they are to act in ways that support the success of the organisation. Like organisations, reward systems need to change over time to respond to changes in society (Zhang et al., 2022). Research also shows that the reward system should encourage actions that are in line with the organisation's strategy. Performance targets that are too easy to achieve are not motivating. Similarly, a performance target that feels unattainable can undermine motivation. In addition, it is necessary to look not only at what a reward system looks like at a particular point in time, but also at how it is set up, how it is applied, maintained and developed (Rixom and Rixom, 2023).

Previous studies have shown the shortcomings of agency theory in reward-based performance literature. Assessing the effectiveness of agency theory is difficult because it identifies money as the only motivational factor and does not consider the psychological or social aspects of motivation. It also ignores the link between individual effort and reward. The link between performance and reward in teamwork is also difficult to identify and measure (Bosse and Phillips, 2016).

In addition to traditional agency theory, models that consider agent performance and motivation have been proposed to support reward systems. These models suggest that in addition to traditional rewards, versatile and flexible performance measures and so-called weak rewards, i.e. intangible rewards in addition to salary, are needed to increase effectiveness and motivation. Stewardship theory challenges agency theory and encourages the development of a trust-based leadership model, which is considered to be particularly effective in public organisations that are looking for new ways to increase the internal task and service motivation of their employees (Torfing and Bentzen, 2020). Stewardship theory emphasises trust, autonomy and responsibility, job satisfaction and consistency alongside traditional rewards (Torfing and Bentzen, 2020).

3. Research methods and data

The case study consists of six interviews conducted in five different organisations in Finland. Each organisation represents a different industry. In

conformity with explorative qualitative research method (Yin, 2013), the research team used a semi-structured, and open-ended interview guide. We design the interview questions so that they could be used to collect similar data from different persons working in different organisations. Interviews took place via Teams software. Each interview was recorded simultaneously and transcribed electronically. After the interviews, the transcription was corrected by listening to the interview again and the material was printed for the next stage of analysis.

Data analysis started with coding data, which means structuring or classifying it. Data can be coded in a data-driven, theory-driven and theory-based way (Yin, 2013). In this study, a data-driven approach to content analysis was used, where the data is allowed to ‘speak’ as freely as possible, and the material is coded specifically to identify what is relevant to the research questions. Coding was followed by thematization (Yin, 2013).

A theme is a broader issue, a frame of reference or a coherent theme found in the data. In this study, coding was done by reading through the transcribed material several times and underlining the responses that were most relevant to the research questions and themes. Underlining made it relatively easy to identify different perspectives, and colour coding was used to aid thematic identification. After coding, the coherent observations and interesting anomalies found in the material were grouped into coherent themes. Interesting quotations were also noted. These analysis steps also stimulated new research literature and gave rise to new perspectives. Thematization was supported by previous research literature and interview questions.

The original language of the quotations used in the results section has been edited to improve readability. Filler words and colloquialisms have been removed from the quoted material, but the content has not been changed. The language of the interview was Finnish, and the quotes were translated into English. At all stages of processing the interview material, care was taken to ensure that no interpretations were made and that the content remained the same.

It can be argued that data collection based on six interviews cannot provide enough information for a comprehensive case-study. In consequence, the study collected and analysed context data from company information available online. The online information helped to get more insights into company’s strategies and management control settings with which the interviewees operated. But it did not disclose reward compensation systems applicable in each organisation.

Table 1 - Data collection statistics

| Company | Interviewee | Number of employees | Business sector | Industry |
|---------|-------------|---------------------|---------------------|---|
| F1 | V1 | >500 | Public sector | Education Utbildning (https://www.keuda.fi) |
| F2 | V3 | >500 | Business | Building and constructions Byggverksamhet (https://bet-set.fi) |
| F3 | V2; V5 | 250–500 | Business | Sport (https://www.unisport.com) |
| F4 | V4 | 50–100 | Business consulting | IT - (https://www.happeo.com) |
| F5 | V6 | <50 | Business consulting | Consulting / HRM Företagstjänster (https://www.nisinterim.fi/en) |

4. Findings and discussion

4.1 The role and importance of the reward system in the organisation

All the data confirmed that reward systems are an important tool motivating and engaging employees. Each reward system guides employees to act in ways that support the organisation’s business. According to respondents, rewards are important. However, their effectiveness varies from company to company.

“The perception is that it plays an important role. That is a thought and an assumption. But the practical experience is that in the end it has very little impact. We try to do good, but in the end, it does not lead to much action”. V2

“I would say that they (reward systems) do not play a very big role. Maybe we would like them to play a bigger role, but they are not used as much as they could be”. V4

“I think the importance of the reward system depends on who you ask.” V5

Respondents had differing views on the extent to which reward systems have a tangible impact on employee performance and motivation. Some described them as significant incentives, while others saw them as just one of many motivational factors.

The interviews material suggest that the role and importance of reward systems is influenced by their perceived success. At company level, there were differences in how well established and effective reward systems were.

In some companies they were part of a well-established practice, while in others they were described as incomplete and challenging.

“Our company can be described as a start-up company and therefore our way of working, even in terms of rewards, is quite unorganised”. V3

Companies where the reward system was considered successful and where there was less room for improvement considered it more important. Conversely, in companies where reward processes were incomplete or undesirable, the role of rewards was perceived as less important. This finding is consistent with earlier studies according to which a successful reward system is the one that employees perceive as important and effective (Leroy, 2024; Shaw, 2024). Respondents gave further comments:

“The challenge with the reward system is that there are no appropriate performance measures for all employees and job roles in the organisation”. V1

“Since all tasks in our company are the same, it is easier to create a reward system that works”. V6

“We have been building a reward system for a couple of years now, and it has been particularly challenging to create the right metrics and criteria for rewards.” V3

In line with the above quotes, many respondents highlighted the difficulty of constructing a reward metric. This was seen as particularly difficult in situations where it is not possible to directly measure the quality of the work performed by employees. All respondents believed that motivating employees was the primary purpose of a reward system. They also emphasised the ability of reward systems to encourage collaboration and to engage employees in achieving common goals, as well as to ensure that rewards are linked to the success of the organisation.

“A reward system increases productivity, quality and customer satisfaction”. V6

This finding is consistent with previous studies which found that an effective reward system improves the achievement of the organisation’s business objectives and motivates employees to perform better (Meirinhos et al., 2023; Leroy, 2024).

4.2. Investigating rewards forms

In conformity with previous studies, reward solutions should include a combination of monetary and non-monetary compensation packages (Chatzoglou et al., 2024; Ariani, 2023; Shortland and Perkins, 2023; Patel et al., 2023). In this study, all respondents reported that both monetary and non-

monetary rewards were used in the organisations they represented. While some organisations made more use of ‘traditional’ monetary rewards, respondents indicated that qualitative rewards provided a deeper insight into employee performance and engagement.

“The annual bonus includes both monetary and social rewards”. V6

“Whatever roles require a certain level of performance, then that's rewarded - we try to talk about total rewards.” V4

“When it comes to non-monetary rewards, we should have more than just the word ‘thank you’.” V1

As the above quote illustrates, companies use both monetary and non-monetary forms of reward to motivate and engage employees and support the achievement of strategic objectives. Reward schemes varied according to the needs, resources and culture of the organisation and were also used to promote wellbeing in the workplace and strengthen the working community.

According to respondents, reward schemes are supportive, and important to business operations if they are clear and motivating. Their effectiveness, and therefore their importance as a management tool, become reduced when they were unclear or unfair. There were similarities between all the reward schemes surveyed in terms of setting objectives and rewarding good performance, with a clear correlation. However, there were differences in the structure and complexity of the reward systems, linked to the specific needs and strategies of the companies.

“Very often top management think they know what is right and good. In reality, they rarely do, and it would be much wiser and more engaging to listen to what the company's employees think and let the HR experts suggest what would be a good, engaging and socially rewarding reward”. V2

The above quote is consistent with combining some aspects of agency theory with self-deterministic approaches to explain why and how managers and employees are not motivated by the same things (Shaw 2024). The interviewees pointed out that creating a reward system using a top-down technique can be problematic because management may not be fully aware of the types of rewards that motivate subordinates. Some of the interviewees, however, insisted on difficulties to quantify social rewards:

“The concept of social rewards is not very well known and there is room for improvement.” V1

“For me as a manager, it is unclear what a social reward could actually be.” V2

Rewards highlight what is important to the organisation. This study shows that the basis of rewards is based on traditional financial values. Social rewards were the most underdeveloped of all the companies and the concept

was little known or understood. All respondents emphasised that they were not fully aware of what social rewards entailed and said that further research and reflection was needed. Several interviewees suggested that social rewards were at least loosely related to employee wellbeing and could therefore also contribute to organisational success. Although respondents had little experience of social rewards, there seemed to be an interest in them. Many felt that good social rewards could even be a better and more cost-effective form of reward.

“I have noticed that young employees are not motivated by money alone, they value other things than what the traditional reward system offers.” V5

Hence, it can be interesting to investigate in another study the role of recognition as a social reward in the companies analysed or elsewhere (Chatzoglou et al., 2024; Larsson et al., 2022)

4.3. Monitoring and communicating the reward system

All respondents stressed the need to develop transparency and fairness in reward systems. The frequency and method of monitoring varied from company to company. Some monitored progress against objectives monthly and at an individual level, while others monitored less frequently and at a group level. Many interviewees stressed the need to involve employees more actively in the development of reward systems.

“My guess is that a good system based on participation would ultimately cost less but generate much more”. V2

The interviewees stressed the importance of monitoring objectives and the need for employees to be able to see how their performance contributes to the achievement of the objectives set. Here, communication is important:

“In terms of areas for development, I would highlight communication, making (the reward criteria) more visible. I would almost say communication twice”. V4

“The whole issue of reward is topical.” V3

“Rewarding good performance engages and incentivises more than a bonus paid once a year”. V5

However, communicating reward information at different organisational levels can be challenging for a senior manager:

“I find it challenging to communicate at different levels of the organisation that employees can influence the work and thus the results”. V5

“We have become so used to bonuses that they are almost perceived as a fixed part of salary and performance. The distributed organisational model also challenges the incentives”. V5

The interviews expressed the need for continuous improvement of reward systems to reflect on environmental changes:

“You just have to accept that any reward system is never perfect. It’s always a bit imperfect and needs to evolve over time”. V2

We argue, in consequence, that our interviewees confirmed the ongoing debate according to which a combination of agency, stewardship and self-determination theories would managers to continuously improve their reward systems depending on contexts rather than relying on a static performance based reward system (Larsson et al., 2022; Shaw, 2024; Lee, 2024; Torfing and Bentzen, 2020).

Conclusion

The aim of this study was the way employees’ perceptions and attitudes towards rewards may affect the success of a reward system that their organisations have implemented. More specifically, the study asked how employees that work in different organizations explain and appreciate their organisation’s reward systems. Drawing from interdisciplinary literature that combines agency and self-determination theories to analyse the role of rewards in performance management and control, we conducted a case-study in five different organisations operating in Finland during winter 2024. Data were based on interviews and company information available online. Main findings are that all the companies combine monetary and non-monetary rewards to motivate employees to perform better. Communication at different hierarchical levels, reward transparency, and employee involvement in designing and controlling rewards at different hierarchical levels improve the commitment of employees to believe that rewards are good. However, the concept of social reward such as saying, “thank you”, or employee recognition play a pragmatic roll. One interviewee indicated that more than “thank you” is necessary. This study contributes to specific literature discussed in the findings section and improves our understanding of why and how people operating in different industries and at different hierarchical level continue to appreciate monetary rewards in addition to non-financial rewards in a welfare country, like Finland. Empirical findings of this study are limited to the persons interviewed. Further research may analyse micro-organisational and psychological factors that organisations would use to improve reward transparency employee commitment to performance-based reward systems applicable in their workplaces.

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