

EXTRINSIC REWARDS AND PERFORMANCE OF FRONT LINE MANAGERS: EMPIRICAL EVIDENCE FROM PAKISTANI TEXTILE INDUSTRY

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Abstract

Extrinsic rewards like pay, bonuses and promotion opportunities have positive impact on performance of management level employees in different contexts around the globe. The purpose of this study was to explore the relationship between extrinsic rewards and individual performance of front line managers in Pakistani textile industry. The individual performance was measured in terms of task performance and contextual performance (including citizenship behaviour). A sample of 352 front line managers from 20 textile organizations was randomly selected by using an adopted and tested questionnaire from earlier studies. Results show that pay and promotion opportunities have no relationships with task performance but have positive significant relationships with contextual performance (including citizenship behaviour). Whereas, bonus based incentives have positive significant relationships with both task and contextual performance of front line managers. This study will facilitate the contribution in theoretical knowledge by exploring reward-performance relationships particularly for front line managers in developing countries context like Pakistan.

Key Words: Extrinsic rewards, pay, bonuses, opportunity for promotion, task and contextual performance

Introduction

Textile sector is one of the leading industries in Pakistan as it contributes around 60percent of the total exports of the country. Pakistan is a developing country and organizations have started working on the Human Resource Management (HRM) practices with a particular focus on manufacturing sector (Yasmin, 2008). There is limited research work available in the field of HRM practices and their relationship with managerial performance in local context. The textile sector organizations offer a variety of reward programs for the management level employees including pay incentives, bonuses and opportunities for promotion. Butt, Rehman and Safwan, (2007) find out the positive relationship between rewards like pay, promotion and training with the job satisfaction and motivation of the employees in the service sector organizations in Pakistan. Ali and Ahmad (2009) particularly focus on the various reward strategies altogether being offered by a multinational consumer product organization in Pakistan and have found a positive relationship between

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reward efforts and employee satisfaction. The first line managers play very vital role in the overall business performance of the organizations as they are dealing with responsibility of subordinates' work and their performance (Purcell and Hutchinson, 2007). There is dire need of a comprehensive research work in the field of reward-performance literature keeping in view the different types of reward practices and their relationships with individual performance of the management level employees particularly front line managers (Danish and Usman, 2010).

Literature Review

Pay and Performance

Generally rewards are divided into two types as Extrinsic and Intrinsic rewards. Extrinsic rewards can be both financial and non-financial and organizations plan for these rewards as cost factor is involved. Extrinsic rewards like pay and promotions boost the overall self-efficacy of the employees towards performance (Johns, et al., 1992). Pay for performance (PFP) is the extent to which pay is linked to individual performance Maltarich (2015) converse the impression that when risk towards pay is high that affect performance negatively (Larkin, Pierce, & Gino, 2012). For responding to underperformance within a specific performance period; PFP approach is used for organizations to overtly choose not to carry over any kind of PFP penalty into the future. For instance, a target-related bonus that is not received in one period may endure the same in future periods. Firms choosing this PFP approach are likely trying to warrant that motivation related to target viability at the start of each performance period is persistent and within a range known to lead to looked-for performance. However, such a design risks employee elusion or thoughtful betting through time shifting of exertion (Larkin, 2014).

In a pay review of 2013, the attention diverted towards the socio-economic challenge of coping with interminable employee demands among them being the endowment of an appropriate incentive scheme. Incentives provide an opportunity through which management can effectively tie performance and competence of the employees. In the context of same impression Nawab and Bhatti, (2011) connote that organizations offer varied incentive schemes for their employees. Keeping in view the compensation and rewards, pay is often termed as more crucial one as it is perceived to be having significant relationship

with some sort of desirable consequences from out of employees (Perry, Debra and Laurie, 2006). Milkovich and Newman (2009) and Terpstra and Honoree (2008) have discussed the importance of compensation and pay for performance strategies for the organizations in the contemporary era as well.

Different theories of inspiration through and through give a firm hypothetical premise to the investigation of the utilization of extrinsic rewards for motivation workers to high level of performance for the achievement of corporate objectives (Lin, 2007). As posit, (Perry, Engbers, & Jun, 2009) support for PFP is hypothetically grounded in expectancy theory and reinforcement theory. Expectancy theory is predicated on a conviction that people will apply exertion in the event that they expect it will bring about a result that they esteem (Pearce & Perry, 1983). On account of PFP, employees will work harder in the event that they esteem fiscal rewards and trust that those honours will come about because of their increase effort (Durant, Kramer, Perry, Mesch, & Paarlberg, 2006). Reinforcement theory places an immediate connection between a coveted target behaviour (performance) and its results (pay). It recommends that pay can be utilized to make results for desire behaviour, for example, performance that will reinforce the practices (Eerde & Thierry, 1996).

The Pay for performance is not only an instrument; it is more about the philosophy of the organization to reward the employees and building the maintainable competitive advantage. The high performing organization varies themselves from their competitors, they achieve higher returns and they have more loyal and satisfied employees, who bring innovative thoughts and solution (Frey & Jegen, 2001). Moreover, researchers believe that the concept of pay can be predicted as an indicator to produce desirable outcomes/behaviours if it matches with the individual interests/or desires of the employees (Perry, Debra and Laurie, 2006). This belief that by paying as per desire, will always result in high performance, needs to be re-addressed as performance related incentives especially pay, are often seen as distracting the managerial attention in the longer perspective (Stringer, 2006). Ismail, et al., (2011) statistically prove the significant relationship between job satisfaction and performance based pay in the Malaysian context. Pay is considered to be the core factor of motivation and satisfaction of the employees in widely

diversified organizations in Pakistan (Butt, Rehman and Safwan, 2007; Ali and Ahmad, 2009).

Bonus Based Incentives

The term incentive brings up to something that anticipates igniting one and or calls for countless exertion to act in a given manner. Allen and Kilmann (2001) observe that an incentive used to induce motivation helps to encourage and preserve a desired behaviour. Incentives are mechanisms according to Hicks and Adams (2003) which intended to achieve a specific change in behaviour. Whereas performance refers to how well an employee accomplishes assigned task through effort and skill. An incentive refers to an inducement for a desired action. Incentive pay is a form of compensation given to employees upon attainment of some form of job performance (Armstrong, 2009). Bonuses are another important aspect of reward management as these are quite often easier to design and implement; whereas involving lower costs in comparison to promotions (Dencker, 2009).

In pushing forward individual's capacity and moving abilities; incentives play an active role for motivating them and to develop their skills, and steadiness among organization requirements and the individuals' needs which heighten the organization performance efficiently and effectively (Al-Nsour, 2012). Moreover, the bonuses can be used to trigger some sort of strong antagonism among the management level employees with lower costs in comparison to promotion based incentives (Baker, Jensen and Murphy, 1988). While it may appear glaringly evident that rewards drive employees to work harder, the exploration on this point is a long way from clear. Late discoveries recommend that individuals are more determined by engagement than by financial rewards. This is an outlook change for some entrepreneurs and managers (Block & Lagasse, 1997). The recognition is that it is far easier to pay somebody a reward than to dissect something like worker engagement. Research has revealed that, in specific circumstances, rewards can really be hindering to execution. A reward spurs individuals so much that it causes more compelling outcomes (Latham, Mitchell, & Dossett, 1978).

Bonus may likewise cultivate an aggressive soul in the working environment. This is a blended gift. While rivalry frequently persuades individuals to put forth a valiant effort, it can likewise make threatening

vibe and divisions. At the point when individuals are going after prizes, for example, rewards, it's normal to see others as contenders as opposed to kindred colleagues. While a specific measure of rivalry is solid, when huge money related prizes are in question it might undermine different esteems, for example, solidarity and the benefit of the organization. At the point when individuals do their best since they feel connected with, there is to a greater degree a sentiment kinship among representatives (Dyer & Reeves, 1995).

These days, organizations are compensating performance bonuses to junior workers to increase output, not at all like the past where they used to be a benefit of top administrators (Stringer, Didham, & Theivananthampillai, 2011). Performance bonuses are currently on the ascent in many organizations because supervisors need to connect performance to reward. Organizations utilize money rewards to reward their workers' performance amid the year under examination (Markova & Ford, 2011). However, there is likewise the implicit desire that these rewards will be calculating rousing workers' execution one year from now too. Workers who get a vast reward will probably want to get it one year too as well. Then again, workers who get a miserly reward and it reflects how the organization evaluated their performance, should seriously think about improving themselves next year (Mitchell, Holtom, & Lee, 2001).

In textile sector organizations in Pakistan, bonuses are frequently used for both individual and group performances but there is no considerable study focusing on bonus based incentives and their possible relationships with individual performance. Ismat, Bashir & Mehmood (2011) identify initial dynamics which aid to determine the culture of an organization they secured out that rewarding the employees by means of pay incentives and bonuses on individual performances is the essential contributing factor.

Opportunities for Promotion

Robbins (2001) describes promotions as opportunity for more personal growth and social standing. "Promotion systems promise future rewards to ensure that managers remain attached to a firm for the duration of their careers and put forth the effort the firm seeks" (Dencker, 2009, p.456). Shirom and Rosenblatt (2006) conduct a comprehensive study in the school systems and find out positive impact of promotional programs on

performance of the promoted teachers. Promotion based programs often provide the employees a considerable reason to stay in touch with the company for longer durations.

A recent study in Taiwan highlights significant improvement in performance of store management employees soon after the introduction of managerial promotional plans (Chu and Liu, 2008). There is no extensive research work available elaborating the relationship between opportunities for promotions and performance of front line managers in the local context. In enhancing performance at both individual and organizational levels employee incentives played a key role, while providing an opportunity for initiatives which are reasoned to be influential in merging theory and practice in human resource management and development (Atambo et al. 2013).

The fate of an organization is typically determined by its employees so it echoes logical to entitle the employee performances for the success and growth of organization. There is no suspicion on the conception that pay and incentives inclined to exert more efforts towards higher task performance. Besides these extrinsic rewards growth opportunities for employees' triggered the motivational level towards the higher contextual performances (Mamdani & Minhaj, 2016).

Measuring Individual Performance

For the proposed research work, two dimensions of performance as task performance and contextual performance (including citizenship behaviour) have been examined for measuring individual performance (Edwards et al., 2008). Organizational productivity unswervingly obstructed by individual employee performance in terms of both quality of services delivered and client satisfaction (Ndetei et al., 2008). Task performance includes the implementation of formal components of one's job which in turn benefit the organization directly and differentiates one's job from other jobs significantly.

In a meta-analysis of 600 studies Condly, Clark and Stolovitche (2003) compute an average effect of overall incentives in all work settings. They further signify that all incentives 22% subsidize to gain in task performance. The contextual performance (including citizenship performance) revolves around various activities that provide support in terms of organizational, social and psychological contexts to task performance. Some examples can be willingly doing tasks not formally

part of one's job, putting extra effort and dedication to work, helping others on work place, obeying formal rules and regulations and trying to promote the organization by supporting and defending it (Borman and Motowidlo, 1993). Besides, both performance measures make independent contributions to employee's efforts to get rewards like pay and promotions (Scotter, et al., 1996).

Measuring performances at a part of performance management according to the Armstrong & Taylor (2014), is a systematic process for cultivating organizational performance by developing the performance of individuals and teams. Khan, Waqas & Muneer (2017) further explained it is means of getting better consequences by indulgent and managing performance within an established framework of planned goals, standard and competency requirements which mitigates the employees to engage with their tasks as well the organizations too. In a stance of contextual performances work engagement leads employees towards the citizenship behaviors (Matta, Scott, Koopman & Conlon, 2015).

Framework and Study Hypotheses

Keeping in view the literature reviewed above, the following directional framework has been developed for this study.

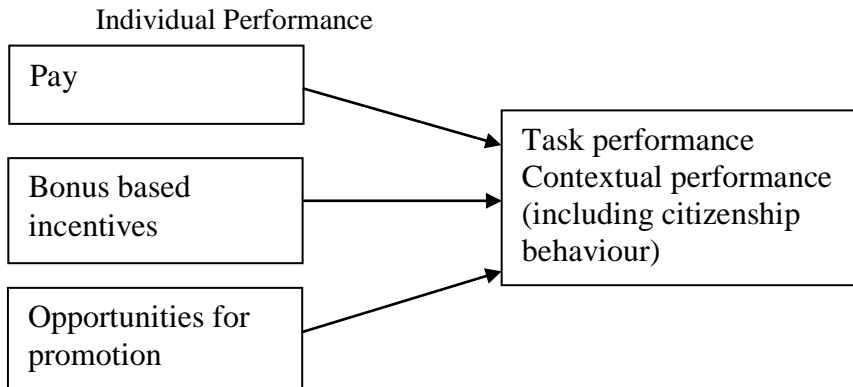


Figure 1: Framework for Study

Hypotheses

Following research hypotheses can be derived for the study in hand

H 1: There is a positive relationship between pay and task performance.

H 2: There is a positive relationship between pay and contextual performance (including citizenship behaviour)

H 3: There is a positive relationship between bonus based incentives and task performance.

H 4: There is a positive relationship between bonus based incentives and contextual performance (including citizenship behaviour)

H 5: The opportunities for promotion are positively related with task performance of first line managers.

H 6: The opportunities for promotion are positively related with contextual performance (including citizenship behaviour) of first line managers.

Methodology

This study suits to positivist research philosophy with particular focus on deductive approach. The research strategy implies the use of quantitative approach for data collection and analysis (Bryman, 2012). It is a survey based cross-section research because of relatively large sample size and use of questionnaire (Saunders, Lewis and Thornhill, 2009). A questionnaire has been developed by adopting measures for pay, bones based incentive and opportunities for promotion from existing studies. The measures have been tested for reliability in the local context and Cronbach (1951) coefficient of alpha has been found for each variable. The dependent variables are task and contextual performance (including citizenship behaviour) and all variables have been measured by using Likert's 5 item scale of agreement as 1) Strongly Disagree to 5) Strongly Agree. The principle component analysis (PCA) has been done for all items showing KMO value as .85 which is good and a significant chi square value for Bartlett's' test.

The data were collected by using stratified random sampling technique. The industry was classified into three strata as processing, spinning and garments based on the products being manufactured. 20 organizations were selected randomly from three strata and questionnaires were distributed to 400 front line managers. The participation in the survey was at will and finally 352 questionnaires were received for analysis (response rate = 88 %). 329 respondents (93.5 per cent) were male and 23 respondents (6.5 per cent) were female. The coefficient alpha was found for each variable and Pearson's correlation was used to test the association among variables and results are presented in Table 1. The multiple regression models were used to identify the

relationships between rewards and individual performance (dependent variable) for front line managers and results are reported in Table 2 & 3.

Results

The pay had no correlation with task performance but a statistically significant relationship with task performance including citizenship behaviour ($r = .23, p < .01$). Hence rejecting the hypothesis H1 stated there is positive relationship between pay and task performance and accepting the hypothesis H2 stated there is positive relationship between pay and contextual performance. Whereas, bonus based incentives were positively related to both task performance ($r = .12, p < .05$) and contextual performance ($r = .19, p < .05$) and accepting the hypotheses H3 and H4 stating that there are positive relationships between bonus based incentives with task and contextual performance. There was no correlation found between opportunities for promotion and task performance, rejecting the hypothesis H5. Whereas, a positive significant correlation was found between opportunities for promotion and contextual performance ($r = .14, p < .05$), hence accepting the hypothesis H6 stated that there is positive relationship opportunities for promotion and contextual performance.

Table 1

Summary of Inter-correlation for Scores of Measures for Demographic, Extrinsic Rewards with Task and Contextual Performance

Variables	1	2	3	4	5	6	7	8
1. Age (-)		-.15*	-.73**	-.04	.05	.01	.02	.01
2. Gender (-)			-.17**	.06	.05	.04	.02	.15*
3. Experience (-)				.03	.01	.04	.07	.01
4. Pay				(.78)	.38**	.36**	.01	.23**
5. Bonus based Incentive					(.70)	.40**	.12*	.19*
6. Opportunity for Promotion						(.73)	.01	.14*
7. Task Performance							(.71)	.34**
8. Contextual Performance								(.81)

*Significance at $p < .05$, ** significance at $p < .01$, () alpha values for scale, $N = 352$

For further analysis, regression model was run predicting task performance and contextual performance separately. The first model was explaining 32 per cent of variance in predicting change in task performance ($R^2 = .32$ and $F = 2.87$, $p < .05$). The model was showing positive relationship with bonus based incentives and task performance ($\beta = .14$, $p < .05$) where as weak negative relationships were found between pay, opportunities for promotion and task performance. Hence, hypotheses H1 and H5 were rejected and H3 was accepted as indicated in Table 2.

Table 2

Regression Analysis Summary for Extrinsic and Intrinsic Rewards Predicting Task Performance for Front Line Managers

Variables	B	SEB	β	R^2	F value
<i>Model 1</i>					
<i>Controls</i>					
<i>Model 2</i>				.32	2.87*
Pay	-.02	.05	-.02		
Bonuses	.16	.04	.14*		
Opportunities for Promotion	-.08	.05	-.07		

*Significance at $p < .05$, ** Significance at $p < .01$, Controls: age and experience, Dependent variable is task performance, $N = 352$

In other model, contextual performance was regressed against independent variables and model was explaining 16 per cent of variance in predicting contextual performance ($R^2 = .16$ with $F = 4.73$, $p < .01$). There were positive relationships with pay and contextual performance ($\beta = .18$, $p < .01$) and bonus based incentives with contextual performance ($\beta = .11$).

Table 3

Regression Analysis Summary for Extrinsic and Intrinsic Rewards Predicting Contextual Performance including citizenship behaviour for Front Line Managers

Variables	B	SEB	β	R^2	F value
<i>Model 1</i>					
<i>Controls</i>					
<i>Model 2</i>				.16	4.73**
Pay	.19	.05	.18**		
Bonuses	.13	.04	.11*		

Opportunities for Promotion	.07	.05	.06
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*Significance at $p < .05$, ** Significance at $p < .01$, Controls: age and experience, Dependent variable is contextual performance including citizenship behaviour, $N = 352$

There was weak relationship between opportunities for promotion and contextual performance, accepting the hypotheses H2, H4 and H6 for the study as is evident from Table 3.

Discussion

The results show positive relationship among pay, bonus based incentives and opportunities for promotion with both task and contextual performance, however the strength of relationship is weak to moderate and similar results have been reported in earlier studies (Ali and Ahmad, 2009; Butt, Rehman and Safwan, 2007). It is interesting to note that pay was positively related to contextual performance and relationship is statistically significant ($r = 0.23$, $p < .01$). Earlier studies in developing countries show positive relationships between pay and employee performance and it is worth mentioning that these studies have been conducted taking sample of both management and labour employees. On the other hand, bonus based incentives have positive relationships with both task and contextual performance showing that employees get motivated with cash based incentives. The textile sector employees have better job satisfaction with external rewards particularly cash based rewards (Ali and Usman, 2010). The results are compatible with existing studies in reward-performance literature (Ismail, et al., 2011). Promotional opportunities show weak relationship with task performance, and significant relationship with contextual performance. The improvement in task related performance is not linked with having opportunities for promotion. However, the promoted employees show greater satisfaction with job (Shirom and Rosenblatt, 2006) resultantly increase in contextual performance including citizenship behaviour.

Conclusion and Recommendations

This study is important in exploring relationships between extrinsic rewards and individual performance of front line managers in Pakistani context. The study shows the positive relationships between extrinsic rewards like pay, bonus based incentives and promotional opportunities

with individual performance measured in task and contextual performance (including citizenship behaviour). The strengths of relationships are weak to moderate in some cases, but still they predict the direction of relationship. The study has got some limitations as responses of sample managers are based on self-perception and there can be error for biasness. Secondly, the intrinsic rewards could be identified and tested against performance to get clear picture for reward-performance relationship in developing countries' context. Lastly, some possible moderating variables like organizational justice and organizational culture could also be tested in the study. Future studies should focus on these points to get comprehensive understanding of the reward-performance theory and practices in the context of developing countries.

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