

UDC: 331.225:303.71]:334.72.012.63/.64 (497.75)

Original Scientific Paper

THE IMPACT OF REWARDS ON EMPLOYEE PERFORMANCE: IN SMES IN POLOG REGION

Arlinda Mazllami¹

¹PhD candidate, Faculty of Economics, Faculty of Economics, University of Tetova, Republic of North Macedonia

*Corresponding Author: mazllamia@gmail.com

Abstract

Nowadays companies are facing global competition and everyone is trying to create competitive advantages to successfully achieve their objectives. Human resources are key resources to the success of any business. Human resource management is focused on human relationships and on their well-being, in order for them to make their full contribution to the work. Rewards are the most subtle aspects of operating a business; it is something that recognizes a person's contribution.

At the global level there are four factors that affect worker's rewards: institutional factors, business model factors, human resource management factors and cultural factors. Rewards are very important element in human resources management, as they influence employees' motivation to accomplish tasks and to achieve competitive advantage.

The main objective in this paper is to identify and analyze the relationship between employee rewards and employee performance in the SMEs in Polog region in the Republic of North Macedonia. Enterprises in our country need to follow contemporary trends and apply all types of rewards, whether financial or non-financial, direct or indirect.

The research methodology is based on statistical analysis, synthesis and comparative methods. The primary data is collected from the responses of structured questioner dedicated to SMEs in Polog region and how they apply reward management policy and practice.

Our assumptions are that SMEs in Polog region don't apply all types of rewards, especially non-financial rewards. The findings indicated that there is a significant relationship between employee reward and employee performance. Enterprises have to become aware of the importance of applying all elements of rewards to improve employee performance which will result in improved enterprise performance.

Keywords: Rewards, Performance, Employee, Enterprise, HR.

1. Introduction

Human resource management in business entities is a very complex process that requires a multidimensional treatment of human resource management in three dimensions:

- ✓ *Attracting quality workforce*
- ✓ *Developing quality workforce*
- ✓ *Maintaining quality workforce*

Reward system is important for companies because it enables to attract and retain qualified and responsible workers, it motivates employees and provides direction to their efforts so they increase their performance and realize a competitive advantage for companies.

This research has main objectives to explore the impact of intrinsic reward on employee performance and the extrinsic reward on employee performance. The objective of organizations is to reward people fairly, equitably and consistently in accordance with their value to the organization in order to further the achievement to the organization's strategic goals (Armstrong, 2006).

Reward programs are at the heart of the employment relationship and they have important impact for both employees and employers. Reward management includes financial rewards and non-financial rewards such as recognition, learning and development opportunities and increased

job responsibility. The strategy and structure of reward program have important role for business and their ability to create and sustain competitive advantage. Motivated employees make productive workers and the productive workers make productive company.

2. Literature review

The most important factor in every organization is human. Reward management deals with the strategies, policies and processes required to ensure that employees will be motivated and provides real value to employees. The contribution of people to the organization is recognized by both financial and non-financial means. There are many researchers who have contributed to reward system.

Deprosee (2006) in her book *“How to recognize and reward employees”* points out that employee motivation and productivity can be increased by ensuring effective recognition, which will ultimately result in improved organizational performance. She emphasizes that the success of the organization is based on how it motivates its employees and how it evaluates their performance and how it compensates them.

Aziri (2009) in his book *“Human Resource Management”* states that rewards are among the main factors that affect the motivations of employees and their job satisfaction. Depending of the level of reward there will be a match between the employee's expectations and reward forms.

Armstrong(2012) in his book *“Handbook of reward management practice: Improving performance through reward”* states that the goal of the organization is to reward people fairly, equitably and consistently in accordance with their value to the organization in order to further the achievement of the organization's strategic goals.

Reward management is an important part of HRM with purpose to managing people. According to Armstrong (2006), the aims of reward management are as a below:

- ✓ *Reward people according to the value they create;*
- ✓ *Align reward practices with business goals and with employee values and needs;*
- ✓ *Reward the right things to convey the right message about what is important in terms of behaviours and outcomes;*
- ✓ *Help to attract and retain the high-quality people the organization needs;*
- ✓ *Motivate people and obtain their engagement and commitment;*
- ✓ *Develop a high-performance culture.*

There are many studies that analyse the impact of rewards on employee performance. Yousaf et al. states that financial rewards are essential in fulfilling the basic necessities of life and needs. Employees expect a salary according to their skills, abilities and qualifications. No one likes to be unappreciated. Brewster and Mayrhofer (2012) analyze the importance of non-financial rewards as a tool of enhancing job satisfaction and performance. Mujttaba and Shuaib (2010) states that total rewards system should be well structured, customer focused and fit in strategically with the organization goal. Although pay is a significant aspect of an organization rewards structure, there is no guarantee that it will increase performance or even satisfaction.

3. Data and methodology of research

This study examines reward policies and their impact on employee performance on SMEs in Polog region in the Republic of North Macedonia. This study adopted survey research design and structured questionnaire dedicated to 188 employees of 60 small and medium enterprises in Polog region in the Republic of North Macedonia.

Primary data is generated from answers of a questionnaire dedicated to the employees in the SMEs in Polog region (188 responders). The secondary data will include information of books, journals, PhD thesis, statistical report of local institutions (The state agency of statistics, URL: <https://www.stat.gov.mk/>) and international institutions. This study also is based in labour laws in Republic of North Macedonia.

The used methodology is cross tabulation two-way tables with measures of association of the survey conducted in the SMEs in Polog region processed by STATA software. According to the research methodology we will put some different hypotheses in order to explain the objectives of this research, such are:

- H₁:** There is a relationship between employee level wages and employee performance.
- H₂:** There is a relationship between employee experience and employee wages.
- H₃:** There is a relationship between employee bonus and employee performance.
- H₄:** There is a relationship between employee experience and employee bonuses
- H₅:** There is a relationship between employee motivation/advance and employee performance

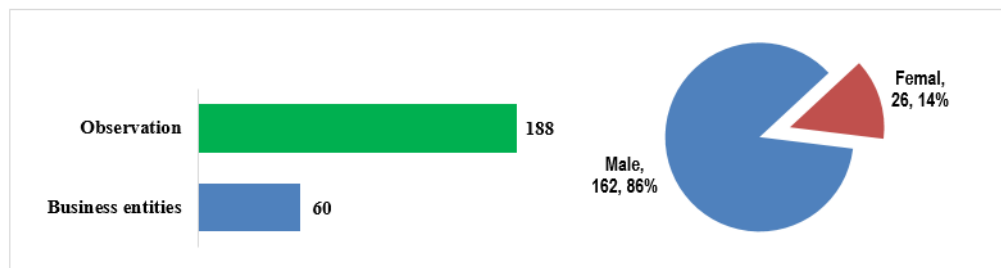
The estimation and testing of hypotheses will be realized as follows:

- *Cross tabulation two-way tables with measures of association.*
- *Statistic Testing: X² (chi-square) tests (Wolfe, 1999), Cramer's V test, Gamma, Kendall's Tau-b test and Fisher's exact test.*

4. Sample description

The primary data is collected from answers of the questionnaire dedicated to SMEs in Polog region which content 60 business entities or 188 responders. The survey sample analysis by gender is dominated by males because 86% of observers are male and only 14% are females (see Fig.1).

Graph. 1 Description of the of Questionnaire, Polog region

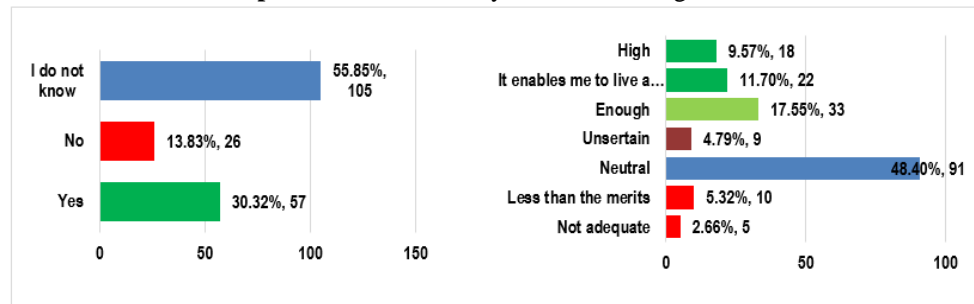


For our analysis it is very important the employee level of education and their reward. According to the sample analysis workers with secondary school education are with higher percentage, or 43 % of responders are with secondary school education. Also workers with primary education participate with 29% that means high percentage. Workers with high education participate with only 17% and workers with bachelor education participate with 11%.

The crucial issue in a business organization is to have a scheme of salary. In this survey we analyze if employees are paid with the same salary schemes. Based on the results obtained we conclude that most of the workers or 56 % declare that they are not notified about salary schemes, that result that a high number of firms aren't transparent with their workers. Only 30 % declare

that they are paid with the same salary schemes and 14 % declare that they aren't paid with the same salary schemes (see Fig.2).

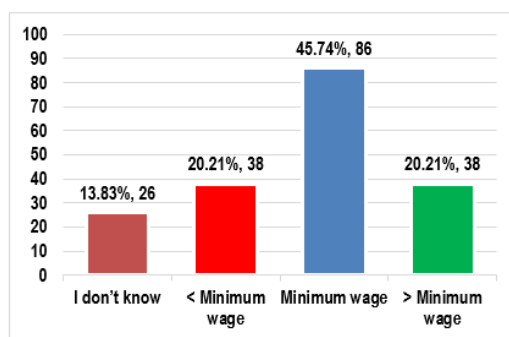
Graph. 2 Scheme of salary and level of wages for a normal life



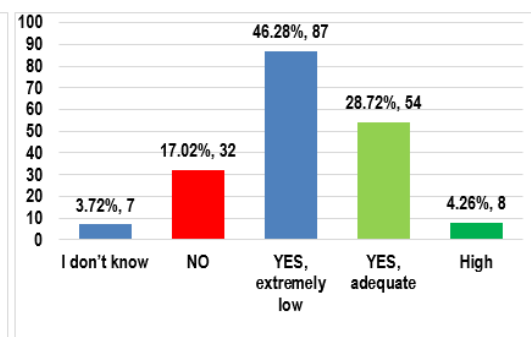
Pay is very important to people to fulfill living needs. About 48% of respondents have stated neutral for that if wages are adequate for living normal life. Only 12% of respondents declared that wages enables to live luxurious life while 18 % of respondents declared that wages are enough for living normal life. The meaning of money is concerned with how wealth is viewed by employees or society in general.(see Fig.2).

One of the most important issues of the rewards policy in an organisation is system of paying according to the law and rules of the country where are working. The minimum wage law places a bottom limit on what an employer may pay. The major number of respondents or 46% is paid with minimum wage, 14% of employees don't know how minimum wage is in Republic of North Macedonia and 20% are paid under minimum wage, which are probably cases of informal employees. Only 20% of respondents are paid above minimum wage (see Fig.3).

Graph. 3 The level of wages



Graph. 4 The level of bonus

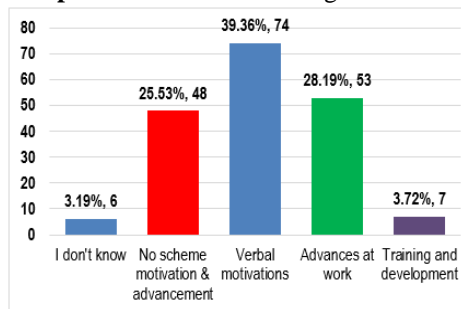


Bonuses are one-time payments based on performance. They have the advantage of not adding permanently to the base wage and can be given based on either rated or non-rated output measures (Bernardin, 2003). Employees are more motivated if they get bonuses in their workplace, but the research results show a fairly high percentage of employee that get extremely low bonuses reaching 46, 28%, while 17% don't get any kind of bonuses. Satisfied with bonuses received from companies are declared 28, 72% of respondents and only 4, 26% are high satisfied with bonus received from companies. All these results in inadequate application of bonus schemes.

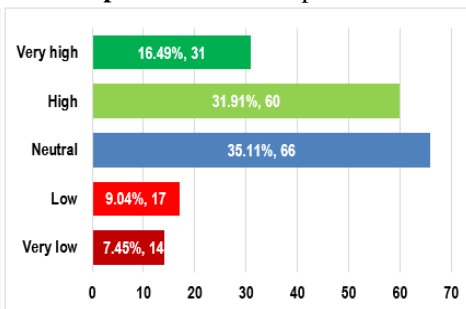
The other important issues of good governance of human resource management of an organization are the indirect forms of employee supporting. Employee benefits are indirect forms of compensations that are intended to improve the quality of life of employees. Based on the results obtained we conclude that most of MSEs in Republic of North Macedonia don't have motivation & advancement scheme or have only verbal motivation. By all respondents, 28% of them declared that have advances at work and only 4% of them have training and development system in their workplace (see Fig.5).

The main purpose of every organization is to motivate employees to get better performance of them. But how much realize this issue SMEs in Polog region. According to the sample of Polog region employees' performance compared to the previous year declared by the employees was the same for 35 % of respondents, 17% of respondents declared that their performance was lower than the previous year. Improved performance from the previous year have had around 48% of respondents that show high percentage of better employee performance compared with the previous year (see Fig.6).

Graph. 5 The level of training/advance



Graph. 6 The level of performance



5. Findings results and Discussion

In the focus of our research is measuring of the impact of rewards to the employees' performance. Our analyses is based by answer of the employees based their perception about their performance. According to the sample of Polog region employees' performance compared to the previous year was the same for 35% of respondents.

How is the relationship between employee's wages level and their performance? In this a way we will try to make a cross tabulation between wages level and performance of employees.

H₁: *There is a relationship between employee's wages level and employee performance.*

Table 1. Cross tabulation between wages level and performance of employees

	<i>I don't know</i>	<i>< Minimum wage</i>	<i>Minimum wage</i>	<i>> Minimum wage</i>	Total
Very low	3	2	4	5	14
%-category	21.43	14.29	28.57	35.71	100
Low	6	5	5	1	17
%-category	35.29	29.41	29.41	5.88	100
Neutral	10	18	28	10	66
%-category	15.15	27.27	42.42	15.15	100
High	5	13	30	12	60
%-category	8.33	21.67	50	20	100

Very high	2	0	19	10	31
%-category	6.45	0	61.29	32.26	100
Total	26	38	86	38	188
%-category	13.83	20.21	45.74	20.21	100

Results of Testing H₁:

Pearson chi2(12)	=	28.1562	Pr	=	0.005
likelihood-ratio chi2(12)	=	33.1392	Pr	=	0.001
Cramer's V	=	0.2234			
Gamma	=	0.305	ASE	=	0.085

The results from testing hypothesis H₁ indicate that:

- Pearson chi2 is 28.1568 that is higher than the value of TD (chi2 Table of Distributions which is 21.03. The value of Pr=0.005 (*Pearson chi2, likelihood-ratio chi2*) so Pr<0.05 (at 95% confidence) then we accept the H₁.
- *There is a relationship between employee wages level and employee performance. The relation is moderate (Cramér's V =0.2234 is between ± 0.20 and ± 0.29).*

The second objective of this research is to measure the relationship between experience and wage of employee of SMEs in Polog region. In this way we will try to make a cross tabulation between level of wage and work experience of employee (see Table 2). In this way we will try to testing the second hypothesis which is expressed:

H₂: *There is a relationship between experience and wage of employee.*

Table 2. Cross tabulation between wages level and experience of employees

	<i>I don't know</i>	<i>< Minimum wage</i>	<i>Minimum wage</i>	<i>> Minimum wage</i>	<i>Total</i>
<2 years	23.53	17.65	52.94	5.88	100
3-6 years	13.73	19.61	56.86	9.8	100
7-10 years	10.14	28.99	43.48	17.39	100
11-15 years	11.9	11.9	38.1	38.1	100
>15 years	33.33	0	22.22	44.44	100
Total	13.83	20.21	45.74	20.21	100

Results of Testing H₂:

Pearson chi2(12)	=	27.6333	Pr	=	0.006
likelihood-ratio chi2(12)	=	28.0186	Pr	=	0.005
Cramer's V	=	0.2213	ASE	=	0.009
Gamma	=	0.2201			

The results from testing hypothesis H₂ indicate that:

- Pearson chi2 is 27.6333 that is higher than the value of TD (chi2 Table of Distributions which is 21.03. The value of Pr=0.006 (*Pearson chi2, likelihood-ratio chi2*) so Pr<0.05 (at 95% confidence) then we accept the H₂.
- *There is a relationship between employee level wages and employee performance. The relation is moderate (Cramér's V =0.2213 is between ± 0.20 and ± 0.29).*

How is the relationship between performance employees and bonus in the SMEs of Polog region? To find the adequate answer about this issues we will try to make a cross tabulation between bonuses and experience level of employees (see Table 3). In this way we will try to test the third hypothesis which is expressed:

H₃: *There is a relationship between employees' bonuses and employees' performance.*

Table 3. Cross tabulation between bonus level and employees' performance

	<i>I don't know</i>	<i>NO</i>	<i>YES, extremely low</i>	<i>YES, adequate</i>	<i>High</i>	<i>Total</i>
<i>Very low</i>	1	2	5	5	1	14
<i>%-category</i>	7.14	14.29	35.71	35.71	7.14	100
<i>Low</i>	3	3	6	3	2	17
<i>%-category</i>	17.65	17.65	35.29	17.65	11.76	100
<i>Neutral</i>	1	17	28	17	3	66
<i>%-category</i>	1.52	25.76	42.42	25.76	4.55	100
<i>High</i>	2	5	34	18	1	60
<i>%-category</i>	3.33	8.33	56.67	30	1.67	100
<i>Very high</i>	0	5	14	11	1	31
<i>%-category</i>	0	16.13	45.16	35.48	3.23	100
<i>Total</i>	7	32	87	54	8	188
<i>%-category</i>	3.72	17.02	46.28	28.72	4.26	100

Results of Testing H₃:

Pearson chi2(16)	=	24.6906	Pr	=	0.075
likelihood-ratio chi2(16)	=	21.5354	Pr	=	0.159
Cramer's V	=	0.1812	ASE	=	0.092
Gamma	=	0.1037			

The results from testing hypothesis H₃ indicate that:

- Pearson chi2 is 24.6906 that is less than the value of TD (chi2 Table of Distributions which is 26.03). The value of Pr=0.075 (*Pearson chi2, likelihood-ratio chi2*) so Pr>0.05 (at 95% confidence) then we reject the H₃.
- *There is no relationship between employee bonus and employee performance* (with 95% confidence)

The category of employee experience is very important for a performance of a company. In this case when the company reaches more profit based on experience, there should have a bonus for employees. Based on the circumstances of SMEs of Polog region this paper analyses the treatment using a cross tabulation between employees' experience and bonus awards by the employers (see Table 4). In this away we will try to testing the fourth hypothesis which is expressed:

H₄: *There is a relationship between employees' experience and employees' bonuses*

Table 4. Cross tabulation between bonus level and experience of employees

	<i>I don't know</i>	<i>NO</i>	<i>YES, extremely low</i>	<i>YES, adequate</i>	<i>High</i>	<i>Total</i>
<2 years	2	2	12	1	0	17
%-category	11.76	11.76	70.59	5.88	0	100
3-6 years	3	6	29	10	3	51
%-category	5.88	11.76	56.86	19.61	5.88	100
7-10 years	2	14	30	22	1	69
%-category	2.9	20.29	43.48	31.88	1.45	100
11-15 years	0	7	13	18	4	42
%-category	0	16.67	30.95	42.86	9.52	100
>16 years	0	3	3	3	0	9
%-category	0	33.33	33.33	33.33	0	100
<i>Total</i>	7	32	87	54	8	188
%-category	3.72	17.02	46.28	28.72	4.26	100

Results of Testing H₄:

Pearson chi2(16)	=	27.7736	Pr	=	0.034
likelihood-ratio chi2(16)	=	30.3229	Pr	=	0.016
Cramer's V	=	0.1922	ASE	=	0.061
gamma	=	0.2082			

The results from testing hypothesis H₄ indicate that:

- Pearson chi2 is 27.7736 that is higher than the value of TD (chi2 Table of Distributions which is 26.03. The value of Pr=0.034 (*Pearson chi2, likelihood-ratio chi2*) so Pr<0.05 (at 95% confidence) then we accept the H₄.
- *There is a relationship between employee's experience and bonus rewards.* The relation is weak with element of moderate relationship. (*Cramér's V = 0.1922 is between ± 0.19 and ± 0.29*).

One of the nonfinancial rewards of good workers at the work place of the company are motivation and advance system. How this issue is handled in SMEs of Polog region we will see by testing of fifth hypothesis:

H₅: There is a relationship between employee motivation/advance and employee performance

Results of Testing H₅:

Pearson chi2(16)	=	24.2976	Pr	=	0.083
likelihood-ratio chi2(16)	=	19.6709	Pr	=	0.235
Cramer's V	=	0.1798	ASE	=	0.09
gamma	=	0.1751			

The results from testing hypothesis H5 indicate that:

- Pearson chi2 is 24.2976 that is less than the value of TD (chi2 Table of Distributions which is 26.03. The value of $Pr=0.083$ (*Pearson chi2, likelihood-ratio chi2*) so $Pr>0.05$ (at 95% confidence) then we reject the H_5 .
- *There is no relationship between employee performance and motivation/advance (with 95% confidence).*

Table 5. Cross tabulation between motivation/advance and employee performance

	<i>I don't know</i>	<i>No scheme motivation & advancement</i>	<i>Verbal motivations</i>	<i>Advances at work</i>	<i>Training and development</i>	Total
<i>Very low</i>	1	4	3	5	1	14
<i>%-category</i>	7.14	28.57	21.43	35.71	7.14	100
<i>Low</i>	3	5	5	3	1	17
<i>%-category</i>	17.65	29.41	29.41	17.65	5.88	100
<i>Neutral</i>	1	21	26	15	3	66
<i>%-category</i>	1.52	31.82	39.39	22.73	4.55	100
<i>High</i>	1	12	29	17	1	60
<i>%-category</i>	1.67	20	48.33	28.33	1.67	100
<i>Very high</i>	0	6	11	13	1	31
<i>%-category</i>	0	19.35	35.48	41.94	3.23	100
<i>Total</i>	6	48	74	53	7	188
<i>%-category</i>	3.19	25.53	39.36	28.19	3.72	100

6. Conclusion

The organizations need to develop strategic reward system to increase employee performance. An effective pay for performance program can be a powerful tool with which attract, retain and motivate a high quality workforce. Companies in the Polog region (according to the sample) don't apply a transparent system of reward and compensation of employees. We recommend to SMEs in Polog region to have a job description and as well as an adequate compensation and reward system. The monthly compensation of the vast majority of employees is at the level of the minimum wage and below it. Almost 60% of employees declare that monthly salary is below the sufficient level. We recommended to SMEs in Polog region to compensate employees with real wages and not one part at the level of minimum wages and the rest in cash. Employees need to be organized in syndicates to protect their interest. Enterprises in the Republic of North Macedonia need to follow contemporary trends and apply all types of rewards, whether financial or non-financial, direct or indirect.

In this paper are some limitations. The study would have been stronger if human resource managers were interviewed and would obtain more information about employee performance because in this study the performance is measured only by employee perception. This study could have done and focus groups than data gathering would have been more deeply and accurate.

References

- [1] Armstrong, M., (2006) A handbook of human resource management practice. Kogan Page Publishers.
- [2] Armstrong, M (2012).Handbook of reward management practice: Improving performance through reward, Kogan Page Publishers.
- [3] Armstrong, M and Taylor, S (2014).Armstrong's Handbook of Human Resource Management Practice. Kogan Page Publishers
- [4] Aziri, B (2009). Menaxhimi i burimeve njerëzore, ADI, Gostivar
- [5] Bernardin, H. John (2003).Human Resource Management: An Experimental Approach. Boston
- [6] Brewster, C., &Mayrhofer, W. (2012). Comparative human resource management: An introduction. In C. Brewster& W. Mayrhofer (Eds.), *Handbook of research on comparative human resource management*. Edward Elgar.
- [7] Deproose, D. (2006). How to Recognize & Reward Employees. New York
- [8] Drafke, W. M., Kossen.S. (2002) The Human Side of Organizations. Pearson.
- [9] Flippo, Edwin B at al.(1961). Principles of Personal Management, New York, McGraw-Hill.
- [10] Koli,Z., Llaci.Sh.(2001).Menaxhimi i burimeve njerezore, Tiranë.
- [11] Mazllami,J. (2016).Contemporary Forms of Supporting Eentreprenurship and Investments on SMEs: The Case of Polog Region in the Republic of Macedonia.
- [12] Mujtaba, B.G. and Shuaib, S., (2010). An equitable total rewards approach to pay for performance management. Journal of Management Policy and Practice,
- [13] Noe, A. Raymond et al.(1997). Readings in Human Resource Management.
- [14] Tayo, E (2018).The impact of reward systems as a motivation tool for employees' performance. National College of Ireland
- [15] Wolfe,R.(1999)Partitions of Pearson's 2 for analysing two-way tables that have ordered columns. Stata technical bulletin 51.
- [16] Yousaf at al. (2015). Effects of intrinsic and extrinsic motivation on task and contextual performance of Pakistani professionals, Journal of Managerial Psychology, Vol.30
- Zeqiri, I. (2006). Menaxhmenti, koncept, praktika, zhvillim aftësish, Tetovë.