 Reward Systems & Incentives

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Reward Systems, or appraisal systems as it can also be called, are important for any company. A reward system is defined as a structured method of evaluating and compensating employees based on their performance. The compensations and rewards are known as incentives to the employees. The incentives can be bonuses in pay or added vacation or sick days, among other things. Reward systems can help to boost company morale, as well as productivity levels which increase overall revenue for the company. However, there are a lot of negatives that can come with reward systems if not implemented correctly. Sometimes, instead of helping with the company morale, it can hurt it by making some employees feel insignificant if the same people are being rewarded over and over again. Reward systems can be tricky if not implemented and carried out correctly, but when used effectively can have great positive impacts on the company and its employees.

There are three main types of reward systems commonly used by most companies: MBO, BARS, and the Multi-Rating Assessment. Each one comes with its own advantages and disadvantages. MBO, Management By Objective defines the specific skills and actions of a certain job. The defined skills and actions need to be as clear and specific as possible. An advantage to using this method is that it engages the employee in the evaluating process; therefore they learn and understand the entire process. A disadvantage of this particular method is that it is extremely time consuming. In large companies, this might not be the best method to use because it would take the supervisor conducting the evaluations away from his or her other job responsibilities. Another disadvantage is that the goals can be too vague to make it clear enough to quantify any results. MBO is the most popular among most companies.
The BARS, Behaviorally Anchored Rating System, is a rating scale system that uses categories such as “very poor” to “excellent” to evaluate the employees’ performance. It consists of two columns. One column has the rating scale and the other one is where the anchor statement is written by the person evaluating the employee. The anchor statements reflect the category given for the particular area in question. One major downfall to this method can be the anchor statements if they are not specific enough. If the statement is too vague, it will not be of much help to the employee. However, the best part about this method of evaluating is that it focuses on specific areas and behaviors that can be chosen so that it does not necessarily have to be about every single aspect of the job. The comments and ratings then given back to the employee are specific to the questions being asked.

The Multi-Rater Assessment is a type of ranking method that utilizes other employees, supervisors, managers, and sometimes even customers to rate the employee. The assessment itself is a questionnaire that targets all aspects of the job. The employee also takes the same questionnaire as a way of comparing the results from the other people to his or her own. One of the major benefits from using this type of assessment is the range of results that the employee gets. The employee has a chance to see how his or her performance is doing from all different levels in the company. However, this method is extremely time consuming and needs to be done professionally. It needs to be done professionally in order to ensure the right questions are being asked in order to achieve the most useful results.

Any of the above methods of appraising employees will be ineffective if not implemented in the right way. There are several challenges that an organization will face when implementing a reward system strategy. There has to be a clear communication within the
organization where the business and the HR can appropriately implement the strategy. An effective strategy insures that employees are rewarded for providing the organizations goals and strategies within the environment it operates.

There are several steps that one must complete in order to develop a successful reward system. To begin there should be a clarification of the key organizational issues that impact the reward policies and practices. A rationale should be introduced with a clear listing of how it will benefit the employees and the organization itself. Identifying the critical success factors of the organization will set parameters for employees to follow and goals that need to be achieved. After establishing these goals, a thorough review of the external trends and practices within a wide range of areas is essential to aid in the comparison of the amount of rewards that other organizations give. There are a couple drawbacks in an implementation of a reward system. In some cases, rewards involving money can become costly. Most organizations set competitive reward levels and base rewards on performance.

It is very important to decide whether the reward system will be based on performance, seniority or productivity. One concern based on rewarding due to performance is the difficulty of specifying what kind of performance is desired and to determine if it has actually been demonstrated. The figure below shows the steps that are necessary in order to implement a successful reward system.

Of course, every supervisor or manager will face challenges when implementing a new reward system into their company. One of the most common mistakes is not implementing the reward system in a way that makes it fair for everyone, including the employees who have been working for years without any incentives. Another mistake is having a strict set in stone way of
quantifying the results. By not having a standard method, it is much easier to make mistakes when determining who should be receiving an award. Some people will be left out; therefore company morale can be hurt. Also, it will start “he got this” “she got that” talk with the other employees if the reward system is not consistent with everyone in the company. This causes the sense of teamwork to decrease in the company. Another common mistake is confusing speed with haste. If there is an incentive behind completing a task by a certain date, an employee might try to hurry up just to earn the incentive instead of taking the time to do the work correctly. Lastly, there is a distinct difference between an individual reward and a collective award, or a team reward. A team reward can also affect the sense of teamwork because a member of the team can feel that he or she pulled more weight in the group than another member.

The incentives offered by a business vary depending on the type and size of the company. Someone working for a non-profit company will be offered different incentives than someone working for a for-profit company. The incentives can be just about anything from a monetary reward for hard work, greater visibility within the company, paid vacation time or even lunch with the boss. It all depends on the kind of company one works for.

Non-profit companies tend to not have monetary based incentives. Since non-profit companies by definition are not seeking to make a profit, they offer their workers non-monetary based incentives, like paid vacation time, career development opportunities, and public recognition of success. People work hard, and for people working at a non-profit company know that there is usually not a lot of extra money floating around for large bonuses and salary increases. This being the case, non-profit companies offer their workers
opportunities to travel and vacation time as a way of rewarding employees for a job well done. They will also offer training and career development opportunities to those who wish to further their career, or move up the corporate ladder. Though there may not be a lot of extra cash flow, some non-profit companies will offer small spot bonuses to employees who exceed the expectations of managers.

Government job positions are similar to non-profit organizations in that there are usually non-monetary incentives for working. Instead, government positions have more responsibility, job security and stability, and recognition from important people that are used as incentives. As a reward for excellent performance, you may be asked to be a part of an important meeting, become more visible in the work force, or be asked to travel and go to conferences. These incentives work because government positions are fairly fixed as a far as salaries and job mobility. If you wish to make more, then it is more than likely you will have to change positions or apply elsewhere to receive the increase in pay.

But the incentives offered at for profit companies are very different. While you may still receive paid vacations and travel opportunities, you will also see monetary based incentives as well. These may include profit sharing, stock options, bonuses, and salary increases, all of which are linked to your performance as a worker. You may be paid more through commission if you are in sales, and you may receive recognition, like employee of the month, if you have the highest customer satisfaction rating. Having the company pay for a trip to a city is also an incentive that may be encountered by an individual working for a for-profit organization. These incentives work because for-profit organizations tend have more cash flows, and the people working for a for-profit organization are usually interested in making money themselves.
The incentives that work the best, in any organization, are usually the little ones. For instance, having the company pay for a dinner at a nice restaurant or sending an employee and his/her spouse to New York City for the weekend, tend to have a bigger impact on the performance of the individual than a pay increase or spot bonus. Overall, it is important for a company to do a great deal of research in order to determine the best reward system and incentives for their employees’ needs. Being able to effectively implement the reward system is the most crucial step and helps to make sure the classic mistakes are avoided. Once implemented, making sure to stay consistent is the key to keeping the reward system effective and on the right track with the employees of the company.
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