Literature Review
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Key Findings

- Improving performance of underperformers through pay is unproven but rewarding those who do perform has symbolic value, aiding line of sight between employee and strategy, communicating new strategic intent and improving accountability in the public sector.
- Transparency, fairness, communication and staff involvement are key.
- As outputs are hard to define, there is much criticism of sole reliance on quantitative performance measures, especially for academic work.
- Measures should be used within a rich and open conversation about the ‘whole’ job and not dictate the conversation.
- Due to the potential for unintended consequences, evaluation of the effects of the system should be undertaken.
- A reward café, with a broad range of non-financial rewards, with the individual free to choose, rewarding work in general, should address concerns of harming intrinsic motivation but will need monitoring. Money should only be a small part of the reward strategy.

Selected Articles

- the Universities and Colleges Employers Association found that successful performance-related pay schemes need:
  - to be situated within wider reward strategy (with range of financial & non-financial rewards)
  - clear rationale for introduction
  - a robust, transparent Performance and Development Review system to underpin pay decision
  - to have limitations recognised (the need for good management, development and job design more significant for motivation and productivity)
  - a clear line of sight with individual objectives and the organisations
  - employee consultation
  - transparency and communication
a balance of quantitative measures of performance with qualitative assessment of behaviour (although they fail to proffer advice how)

- enough budget to differentiate performance levels
- detailed understanding of workforce profile, their reward needs and expectations (UCEA, 2014)

- Podgursky and Springer’s (2007) overarching lesson was that trial and error was required to formulate right set of performance incentives as the literature is not robust enough to say which design works.

- Maslach et al. (2001) suggested that while a lack of rewards and recognition can lead to burnout, appropriate recognition and reward is important for engagement.

- Chawla & Sondhi (2011) suggest a strong correlation between reward fairness and employee commitment in both the industrial and academic sector.

- Heinrich’s (2007) study of US public sector targets-based incentives schemes provides reason for caution, finding them more likely to encourage misrepresentation of performance and other strategic behaviours than to recognize and motivate exceptional performance or performance improvements (emphasis added).
1 Performance

1.1 Introduction
Performance is an ambiguous concept which can be applied to individuals and organisations: individuals performing well when meeting objectives set by management (Harvard Business Essentials, 2006), organisations when they meet the requirements of their stakeholders (Neely et al., 2002). In addition to being framed by entity: individual, group or organisation, performance is usually defined in terms of the tasks to be completed or goals needed to be achieved (Franco-Santos et al., 2014).

1.2 Managing Performance
Indicative of the different levels performance can refer to, Franco-Santos et al. (2014, p 9) define performance management as ‘the evolving formal and informal mechanisms used to ensure the institution attains its aims and objectives satisfying its stakeholders and being sustainable’. Armstrong (2009, p 9) defines as ‘a systematic process for improving organizational performance by developing the performance of individuals and teams’. Fletcher asserts (2010, p 38) successful performance management ‘should affect all aspects of the organisation's functioning; it is a holistic phenomenon’.

1.3 Performance Management in Higher Education Institutions
The use of performance management in Higher Education Institutions stems from New Public Management (Broadbent, 2007). New Public Management utilises practices generally found in the private sector, including performance targets with quantitative measures, individual appraisal and external audits (Hood, 2001). This is directly opposed to old public management, which had professionalism, self-management, implicit standards and qualitative performance measures as its tenets. New Public Management espouses the view that managers are essential for administering public sector organisations (Deem et al., 2007). In the 1980s, influenced by New Public Management, the Jarett Committee, a committee of Vice-Chancellors and Principals, proposed that Higher Education Institutions adopt performance management practices including quantitative performance indicators and individual performance appraisals (Jarratt Committee, 1985). The Research
Excellence Framework (following on from Research Assessment Exercise) and National Student Survey were introduced into the sector subsequently, being used by the media since to compile performance league tables. The Research Excellence Framework used, in part, to determine the size and allocation of funding.

1.4 Measuring Performance
The measuring of performance is a contentious issue, as it assumes performance is measurable. Jensen and Meckling (1976) argue that, as performance can not be perfectly known in advance, perfect measures are unlikely to be found, Stewart and Walsh (1994, p 45) concurring:

“the dilemma of performance management in the public domain is to secure effective performance when the meaning to be given to it can never be completely defined, and the criteria by which it is judged can never be finally established”.

In addition to the difficulty in finding perfect measures, Goodhart’s Law states as soon as economic indicators are used as performance targets, they lose their ability to be reliable and appropriate indicators (in Martin, 2011): Martin concluding ‘accuracy is a diminishing return’. In the absence of perfect measures, proxy indicators are used, which Franco-Santos et al. define as ‘quantitative measures that approximate or serve as surrogates of performance’ (2014, p 12).

1.4.1 Measuring Performance in Higher Education Institutions
In Higher Education Institutions, research quality is measured by proxy through the Research Excellence Framework, where publication in top-rated journals is used. The National Student Survey is used as proxy for quality of teaching. There have been various criticisms of performance measures in Higher Education Institutions, including: reactivity of staff including gaming, goal displacement and counterstrategy (Osterloh & Frey, 2014; Martin, 2011, Frost & Brockman, 2014); increased research productivity at the cost of creativity and innovation (Osterloh & Frey, 2014; Vakkuri & Meklin, 2003; Ter Bogt & Scapens, 2012; Heinze et al., 2009; Frey, 2003; Alvesson & Sandberg, 2013); increasing the total cost of research by creating transfer markets.
(Power, 1997) and inadequacy of measures (Martin, 2011) leading to hostility (Leigh, 2013, focused on teachers but transferable). Accounting Education ran a special edition dedicated to the negative side-effects in 2015 (including Sangster finding administrative coding reducing cross-disciplinary collaboration in Australia; Moya et al. finding a negative impact on knowledge transfer to society from higher weighting for academic journals in Spain). Finding adequate measures of teaching is a key challenge: the National Student Survey being influenced by teaching style, not validity of content, and peer review requiring many reviewers from the same background and consistently applied over time to be effective (Terpstra & Honoree, 2008).

An issue with proxy measurements, highlighted by Franco-Santos et al., is eventually means can become ends: ‘proxy indicators are perceived to represent true performance’ (2014, p 12). Broadbent (2007) stating they make the measurable visible, the unmeasurable invisible: Power (1997) observing a decline in editing books, organising conferences and facilitating others research as consequence. Bates and Holton (1995) state the importance of determining whether the objective is for performance outcomes or behaviour to be measured. Despite the potential for inaccuracy in performance measurement, ‘by virtue of their necessary reductionism’ (Power, 2004, p 778), measures are needed to define performance at each level. Power (1997) suggests, if there is a solution to unintended side effects of auditing performance, it lies in making the effects of auditing visible, through assessment of influence on outcomes. Oakes and Berry (2009) identify that this accounting ‘colonisation’ can be interpreted in three main ways (with 7 additional considerations), each having different potential behavioural responses. Due to this complexity, open discussion is called for: measures should be used to support conversation between appraiser and appraisee. Heinrich (2007) advising that measures with high informational value should be an improvement on inputs, outputs or cost measures for public sector employees. This view is also developing in the private sector, Deloitte asking of their performance system, ‘what’s the most detailed view of you we can gather and share?’ (Harvard Business Review, 2015).
1.5 Performance Pay

Performance-related pay can relate to a broad range of reward practices which distribute variable amounts of money to employees, based on individual, team and organisational performance (UCEA, 2013). For the purpose of this report, and taking into consideration the parameters of the project it is written for, performance-related pay will be confined to progression within grade (also termed ‘merit pay’ and ‘contribution pay’). Performance-related pay is the most popular pay approach in the private sector in the UK (WERS 2011), and long established. Performance-related pay has many reported benefits such as:

- Motivating staff to increase performance (although only evidenced in roles with easily measurable output) (Gerhart & Rynes, 2003)
- Providing a line of sight between employee and business strategy (Armstrong, 2012)
- Delivering improved accountability and performance management, particularly in the public sector (Marsden & Belfield, 2005)
- Aiding or facilitating organisational change (Kessler & Purcell, 1992)
- Enabling on-going renegotiation of the effort bargain (Marsden, 2009)

Whilst there is criticism of performance-related pay’s ability to improve performance (UCEA, 2013), it has been found to have symbolic value, communicating new strategic intent (Thompson, 2009) and that the principle is what is important (Armstrong & Brown, 1999; Makinson, 2000). Prendergast’s (1999) meta-analysis found performance-related pay scheme designs were very rarely structured in line with theory, meaning it remains largely untested. Due to the afore-mentioned prevalence of performance-related pay in the private sector, and the public sector adopting Performance-related pay relatively late, following the advent of New Public Management, there is a scarcity of robust research in the public sector, particularly outside the US (Prentice et al., 2007). Research focused in Higher Education is scarcer still. This review will locate what there is within the Public Sector as a whole and include Education where relevant.

1.5.1 Performance Pay in the Public Sector

Studies have found limited evidence that performance-related pay has a positive effect on the motivation of public sector workers but that it has the beneficial indirect effect of pressuring line managers into setting more specific and effective targets.
Ray et al., 2014; Marsden, 2009). Burgess et al. (2010) found team incentives raised individual productivity but that reallocation of efficient workers had the most significant impact on outcomes, reinforcing the importance of line management. In addition, they found that non-financially motivated managers were most successful although they cautioned these managers were also younger so long-term career aspirations may be the root cause. Kontopantelis et al. (2014) found only modest (albeit sustained) improvements in performance from substantial incentives from British GPs. Taylor and Beh (2013) found that performance-related pay had no effect on organisational citizenship behaviour among government employees. Frey et al. (2013) caution performance-related pay and output measures can produce negative outcomes in the public sector, suggesting variance of measures is required for more ambiguous tasks.

1.5.2 Performance Pay in Education
Belfield and Heywood (2008) found performance-related pay was not associated with higher levels of job satisfaction. Guis (2013) conversely (but using a different definition of ‘merit pay’) found merit pay affected job satisfaction but also noted lower enthusiasm, lower importance given to teaching and effective teachers more likely to pursue better pay elsewhere. Other negative effects include working fewer hours and reduced participation in unpaid cooperative activities (Jones, 2013). There was no overall impact on student achievement (Goodman and Turner, 2009). Gender seems to be significant: in Belfield & Heywood’s (2008) study women received lower pay but had higher levels of job satisfaction whilst Jones (2013) found males responded more favourably than females. Leigh’s meta-analysis found new teachers more open to performance pay than experienced teachers, with their hostility highest when measured against test scores (Leigh, 2013). This concurred with Yuan et al.’s (2013) findings where lack of acceptance of measures combined with low expectancy that their efforts could impact results (with external factors deemed more influential). Podgursky and Springer’s (2007) overarching lesson was that trial and error was required to formulate right set of performance incentives as the literature is not robust enough to say which design works. Leigh (2013) stated support of autonomous staff is essential.
1.5.3 Performance Pay in Higher Education Institutions
The gender differences seen in Education are also seen in Higher Education Institutions, with Terpstra and Honoree finding (again, in the US) that female faculty staff were significantly more likely to feel that appraisal decisions were biased and that performance standards were not communicated well. Age and tenure observations in Higher Education Institutions were reversed, however, with young and less senior faculty staff significantly more likely to have negative views: perceiving that standards were not communicated well enough and also that performance level pay distinctions were not wide enough (Terpstra & Honoree, 2008). Studying Higher Education Institutions in the UK and Netherlands, Sousa et al. (2010) found research managers were ambivalent in two key ways: seeing performance management targets as simultaneously part of the problem and solution and seeing themselves as a buffer between ‘pure management’ and their researchers. They advise a negotiation-based application with collaborative leadership style. This recommendation concurs with Broadent’s call for the use of relational Performance Management Systems: the difficulty in defining outputs in Higher Education Institutions means that culture, ethics and trust are important elements. Autonomy with active engagement with key stakeholders is advised to set output means (Broadbent, 2007). In a report from 2014, the Universities and Colleges Employers Association found that successful performance-related pay schemes need:

- to be situated within wider reward strategy (with range of financial & non-financial rewards)
- clear rationale for introduction
- robust, transparent Performance and Development Review system to underpin pay decision
- to have limitations recognised (the need for good management, development and job design more significant for motivation and productivity)
- a clear line of sight with individual objectives and the organisations
- employee consultation
- transparency and communication
• a balance of quantitative measures of performance with qualitative assessment of behaviour (although they fail to proffer advice how)
• enough budget to differentiate performance levels
• detailed understanding of workforce profile, their reward needs and expectations (UCEA, 2014)

2. Theoretical Background
There are many economic theories relating to Performance (see UCEA Report, 2013, for further detail). Three main psychological theories have been identified which underpin Performance Management: goal theory, motivation theory and control theory. The latter in essence stating that, when given feedback on behaviour, people recognise where they are failing to meet expectation and take action to overcome it.

2.1 Objective Setting
The underpinning theory which informs objective setting is goal theory. Goals are used to: direct attention to priorities; stimulate effort and, encourage people to utilise their skills and knowledge to increase likelihood of success (Latham & Locke, 1979). Difficult goals being just as effective when set by a manager than self-set, provided the manager provides their reasoning, and the goal is specific (Latham & Locke, 2006). Otley (2005) suggests the additional benefit of increasing managers’ sense of ownership and commitment by involving them in the target-setting process. In their meta-analysis, Ordonez et al. (2009) caution that negative effects have been largely overlooked, citing narrow focus neglecting non-goal areas, a rise in unethical behaviour, distorted risk preferences and reduced intrinsic motivation, as seen also with measures. They advise careful application, consideration of the noted side effects and close supervision.

2.2 Motivation
2.2.1 Extrinsic and Intrinsic Motivation
The importance of perception in the Motivational Crowding Effect (if staff perceive the system as incentivising, the effects will apply) coupled with the finding that professions with internalised standards of excellence have in general higher work
motivation based on feelings of competence and self-determination, indicates
motivation needs to be considered.

Extrinsic motivation is the motivation to perform a behaviour for external factors such
as pay, whereas intrinsic motivation is the propensity to engage in a particular
behaviour due to a personal reward factor.

Monetary reward can crowd out intrinsic work motivation, under identifiable
conditions, but external interventions can raise intrinsic motivation, known as the
crowding-in effect (Frey & Jegen, 2001). Intrinsic motivation can be raised through
recognition, trust and loyalty, through personal relationships between principal and
agent and, increasing opportunities to participate (Frey, 1997). Interventions crowd
out when perceived as controlling (James, 2005; Frey, 1997). When perceived as
informative (eg positive feedback), or supporting the innate need for self-
determination and competence, intrinsic motivation is not affected, or can rise (Frey,
1997). James (2005) finds interventions are perceived as controlling when:

- The object of an agent’s intrinsic motivation is also the source of their
  extrinsic compensation. When an agent is intrinsically motivated to act
  in the interest of the principal, it can be perceived as manipulating
  when the principal introduces incentives.
- The incentives are too large, as they are negatively related with
  intrinsic motivation.

However, when motivated by generalised norms, such as work ethic and
professional standards, external to the narrow definitions of the principal’s interests,
it can be perceived as an affirmation of competence (James, 2005).

Rewards contingent of performance crowd out intrinsic motivation but if rewards
indicate competence they raise it. Rewarding work in general is found to be best for
this, contrary to the current Recognition Award scheme. Non-monetary gifts are
hypothesised as most suitable, as they acknowledge self-esteem (Frey & Jegen,
2001). However many studies suggest intrinsic rewards are more salient than
extrinsic rewards (Fresko, Kfir & Nasser, 1997). For example, a study of 100
teachers found that intrinsic rewards boosted teacher commitment more effectively
than financial reward (Martinez-Pons, 1990). Bogler (2001) supported this idea and concluded that leadership styles based on intrinsic rewards contribute positively to teacher satisfaction and commitment.

### 2.2.2 Public Service Motivation

Research has shown public sector employees differ to private sector in terms of motivation (Bhagwat et al., 2004; Heath, 1999; Perry, 1996; DeHart-Davis et al., 2006; Anderfuhrten-Biget et al., 2010), with prosocial motivation having a more significant role in public sector employees (Festre & Garrouste, 2008; Houston, 2006).

The implications of the Public Service Motivation literature are: to ensure the performance-related pay system isn’t used in place of job design, as ‘meaningful work’ was found by Houston (in the US) to be the most important factor for public service employees; promotion opportunity the second (Houston, 2006). For public service employees particularly, age decreases importance of income (Houston, 2000). Taylor and Taylor (2011), covering the UK and 14 other countries, found Public Service Motivation had a link with higher performance but that there was still a positive relationship between wages and effort, wages therefore still being important.

Heinrich’s study of US public sector targets-based incentives schemes provides reason for caution, finding them more likely to encourage misrepresentation of performance and other strategic behaviours than to recognize and motivate exceptional performance or performance improvements. The theory and empirical evidence does, however, suggest low-powered incentives may be desirable in systems where performance is measured with less precision. They also found systems need openness and fairness if they are to be consistent with stewardship or public service motives for cooperative behaviour (Heinrich, 2007).

From the review, whether a reward café is perceived as non-monetary will depend on the rewards on offer. The autonomy it affords staff should protect intrinsic motivation.
2.3 Theories of Organisational Performance
In the context of public institutions, there are two main theories focused on organisational performance and how the individual effects it: agency and stewardship. Due to the different performance management mechanisms they call for, it is important to identify the motivators of employees (Franco-Santos et al., 2014).

2.3.1 Agency Theory
Agency theory (Jensen and Meckling, 1976) defines employees as self-interested, opportunistic and extrinsically motivated, in need of close managerial control, which can take the form of performance measurement and evaluation systems (Franco-Santos et al., 2014). Agency theory places more emphasis on extrinsic motivation. This approach has been criticised (Frey et al., 2013; Larkin et al., 2012; Vandenabeel and Hondeghem, 2005, cited in Frey et al., 2013) for ‘failing to address intrinsic motivation and other psychological factors at work which are of high importance in the public sector’ (Frey et al., 2012, p 950). Academics reside in this group (if we are to reduce them to a homogenous group). Research undertaken by Doolin (2002) found that employees were likely to resist control practices that challenged their professional autonomy.

2.3.2 Stewardship Theory
Stewardship theory addresses this by modelling employees as stewards, where behaviours which are pro-organisational and collectivistic are of more use than individualistic ones and whose interests can be in line with organisational goals (Davis et al., 1997). This theory assumes a focus on intrinsic rewards. Hernandez defining stewardship as ‘the extent to which an individual willingly subjugates his or her personal interests to act in protection of others' long-term welfare’, asserting stewardship behaviours can be enacted across all organisational levels; not just by those in positions of power (Hernandez, 2012, pp 174-5). This is clearly linked with Public Service Motivation and assessing areas and levels of presence will be a significant challenge of the primary research.
2.3.3 A Hybrid Approach?
Generally viewed as opposing theories (Segal & Lehrer, 2012; Hernandez, 2012), Franco-Santos et al. (2014) propose that, when Higher Education Institutions are simultaneously pursuing goals of varying complexities and time scales, a hybrid approach of agency and stewardship mechanisms can and should be used. This concurs with Weick’s (1976) assertion, which can be interpreted as advising strong steward mechanisms with lighter use of agency mechanisms, to deliver long-term objectives.

Davis et al. (1997) present a model where managers can chose to behave as stewards or agents, their choice dependent on their perception of the situation and their motivation. They found that if either the manager or principal perceives the other will act opportunistically, they will be best to act in an agency fashion (which has the lowest risk), the organisation receiving a suboptimal return (Davis et al., 1997). For the organisation, fostering a work environment where employees feel they can adopt steward behaviours seems beneficial for pursuing long-term or ill-defined goals (Franco-Santos et al., 2014b) and where mutual stewardship choices can be made, potential performance is optimised (Davis et al., 1997), positively influencing longevity and the organisations locale (Hernandez, 2012). This has been found to be the case in Higher Education Institutions in the work of Broadbent and Laughlin (2009) and Bolden et al. (2012).

3. Behavioural Aspects
In both the private and public sector, rewards (above base salary) have the main role to keep employees motivated, engaged and attracted to their work (Bullock, Stritch & Rainey, 2015). ‘Employee attitude’ describes the actions of employees towards their objectives and goals (Saari & Judge, 2004). There are many studies which suggest that perceived organizational support is positively related to various employee behaviours towards the organization (Knippenberg, 2015). Multiple studies suggest rewards in both extrinsic and intrinsic form have positive effects on employee behaviours. Imran et al. (2014) suggest a positive relationship between organisational support and employee’s attitude and work commitment in academic sectors.
3.1 Theoretical Framework
There are a number of theories that potentially explain the relation between HR reward practices and employee attitude: ‘organization support theory’, ‘social exchange relationship’ and ‘norm of reciprocity’. The exchange of supports between employees and employer refers as the main base of organization support theory: employees’ general perception about the extent to which the employer values their contributions and cares about their well-being. This perception affects employee satisfaction levels and encourages staff to engage more in their job (Eisenberger & Stinglhamber, 2011; Kurtessis et al., 2015).

Social Exchange Theory is among the most influential conceptual paradigms for understanding workplace behaviour (Cropanzano & Mitchell, 2005). One of the basic tenets of Social Exchange Theory is that relationships progress over time, becoming trusting, loyal, and committed. Social exchange processes in the relationship between employees and the organization have extensively shown their importance in explaining the occurrence of important employee attitudes and behaviours (van Knippenberg et al., 2015). Perceived reward practices plays an important role in the social exchange relationship between the employee and the organization. This relationship is based on norm of reciprocity (Gouldner, 1960), in this theory employees respond to benefits received from the organization by showing loyalty, effort, and positive attitude in the work place (Cropanzano & Mitchell, 2005).

3.2 Engagement
Work engagement represents a state in which employees bring their individual experiences to play during role performances, signifying an emotional connection between the employee and their work (Kahn, 1992; Rich et al., 2010). As such, work engagement is fundamentally a behavioural concept that defines the active allocation of personal resources toward the tasks associated with a work role (Kanfer, 1990; Rich et al., 2010). Work engagement is also perceived as a personal resource and the cognitive energy that employees bring to work (Rich et al., 2010).

In contrast with work engagement, Burnout refers to exhaustion which is illustrated by relatively low correlations with professional efficacy (Green, Walkey & Taylor, 1991).
Burnout and work engagement are independent states that are negatively related (Schaufeli & Bakker, 2004; Schaufeli et al., 2002). However, this subject is more specifically important in the Higher Education sector because, in comparison with other professions, employees in Higher Education show higher levels of exhaustion (the core dimension of burnout) (Maslach, Jackson, & Leiter, 1996). Academics who experience greater demands on their time, attention and energy, while receiving fewer rewards and less recognition, run a higher risk of becoming exhausted and alienated from their work lives (Blix et al., 1994; Lackritz, 2004).

One of the most effective variables that affects employee engagement is reward (Heneman et al., 2007; Halbesleben, 2010). To explain the relationship between reward and employee engagement, Kahn (1990) reported that people vary in their engagement as a function of their perceptions of the benefits they receive from a role. Furthermore, a sense of return on investments can come from external rewards and recognition in addition to meaningful work therefore, it follows, that employees’ will be more likely to engage at work when they perceive a greater amount of rewards and recognition for their role performances (Saks, 2006). Maslach et al. (2001) have also suggested that while a lack of rewards and recognition can lead to burnout, appropriate recognition and reward is important for engagement.

### 3.2.1 Engagement in Higher Education Institutions

An organisational supportive climate is positively correlated with the level of employee work engagement (Bakker & Demerouti, 2007). Research also reveals that motivational practices in the workplace can control negative effects of job stress on work engagement. Studies reveal that in Higher Education both exhaustion and cynicism were negatively correlated to the size of reward and recognition practices in Higher Education (Barkhuizen, Rothmann & Vijver, 2014). Hakanen et al. (2006), on a sample of over 2000 Finnish teachers, suggest that job control, information, management support and reward climate were all positively related to work engagement. Chikoko, Buitendach and Kanengoni (2014) indicate that reward and recognition have positive effects on employee work engagement and psychological meaningfulness: reward and recognition in Higher Education can increase job
enrichment and meaningfulness amongst employees, leading to increased productivity.

3.2.2 Employee Engagement and Motivation
A study by Lardner (2015), on the public sector indicated a strong reward culture in an organisation positively affects employee engagement and suggests that staff familiarity and awareness to the reward system will lead to higher levels of employee engagement and performance.

3.3 Job Satisfaction
Job satisfaction is conceptualized as the positive or negative evaluative judgments that people make about their jobs (Weiss, 2002). Traditionally, rewards are considered a major determinant of job satisfaction. Danish and Usman (2010), in a study on diverse types of organizations, addressed the importance of rewards as a crucial contributor to the job satisfaction of employees, they reveal different dimensions of work motivation and satisfaction are significantly correlated and reward and recognition have great impact on employee motivation. In addition, Amabile et al. (1994), Milne (2007) and Islam and Ismail (2008) indicate that reward in intrinsic format (e.g. full appreciation of work done, good work conditions and job security) is positively related to job satisfaction in public organisations and service sectors.

In the discrepancy model of Porter and Lawler (1968) people’s job satisfaction is determined by a comparison of their current job conditions (including the rewards they receive) to their ideal job. According to the equity model of Adams (1965) people compare their input with output ratio – which reflects the rewards they receive in return for their work performance – and this comparison determines whether they feel satisfied in their job. However, other theories on job satisfaction suggests that job rewards do not always affect job satisfaction. In particular, Herzberg's (1959) two-factor theory conceptualizes pay as a hygiene factor rather than a satisfier. Hence, it is predicted that satisfaction with pay does not affect job satisfaction. Hofmans, Gieter & Pepermans (2013) explain that there are individual differences in the link between job rewards and job satisfaction, they explain that for some people extrinsic
rewards are related to satisfaction, whereas for other people intrinsic reward could result to improving job satisfaction (Hofmans, Gieter & Pepermans, 2013). Grandey et al. (2013) suggest that financial rewards for service performance were more likely to enhance job satisfaction. Fang and Gerhart (2012) revealed job satisfaction and retention in an organisation were highly related to the degree of matching reward with effort towards work. Peters and Hopkins (2014), in a study in Higher Education, suggest employees whose workload was characterized as high effort/low reward had significantly greater rates of dissatisfaction (Peters & Hopkins, 2014). In contrast, Deci et al. (1999) revealed that monetary reward could have negative impact on employee attitude and job satisfaction. Gagné & Forest (2008) concur that performance-contingent rewards reduce job satisfaction.

3.4 Commitment

Organisational commitment is defined as the relative strength of an individual’s identification with and involvement in an organisation (Kim & Kao, 2014). Committed employees believe in and accept organisational goals and values, and are willing to remain within their organisations and exert more effort in their work (Mowday et al., 1979). Employees who show high organisational commitment tend to be more enthusiastic and are more likely to contribute to the organisation mission and goals (Freund, 2005; Kim & Kao, 2014).

Many studies reveal the significant effect reward and recognition has on attaining high level work commitment amongst employees in organisations (Cropanzano et al., 1997; Wayne et al., 1997). According to social exchange theory, when employees believe that the organisation is concerned about them, they feel obligated to commit to their organisation (Eisenberger et al., 2004). Employees who perceive high levels of organisational support in terms of how their organisation values their contribution or cares about their welfare will demonstrate increased commitment to their work responsibilities.

Nagar (2012), in a study on 255 university lecturers, indicated that favourable work setting is a key reward with employees responding by making a psychological contract which may be demonstrated through more effort, greater participation in work and organisational commitment. Furham (2009) stated that reward mechanism
plays an important role in motivating employees to exert considerable effort to meet organisational goals, and to maintain membership in both private and public sectors. Lee, Chen & Lee (2015) found that, when an organisation provides education and training, a reward system and good communication channels, employees effectively improve organisational commitment and performance. Chawla & Sondhi (2011) suggest a strong correlation between reward fairness and employee commitment in both the industrial and academic sector. They reveal that organisational commitment in both sectors was heavily dependent on employee perception about the fairness of rewards.

4. Equality
Issues of particular concern regarding equal pay in performance and contribution-related pay systems are:

- female staff receiving, on average, significantly lower contribution-related pay than male staff (or vice versa) where they are undertaking equal work
- black and minority ethnic staff receiving lower performance assessments than white colleagues, and in consequence lower payments
- groups of staff being excluded from such payments where they are undertaking equal work
- applying different contribution-related pay systems to different groups of staff undertaking equal work
- contribution-related criteria that are potentially indirectly discriminatory by, for example, being more characteristic of ‘male’ than ‘female’ behaviour or emphasising features that individuals with caring responsibilities may have greater difficulty in complying with, for example, willingness to work outside normal hours
- a reliance on staff putting themselves forward for bonuses, as some groups of staff may, in general, be more likely than others to put themselves forward
The use of unique rewards systems (such as a cafeteria or flexible reward system) are recommended to meet the needs of workers from different cultural backgrounds (Stone et al., 2015).

Based on equity theory (Adams, 1965), employees must be able to see a clear connection between their job performance and the reward system. Further, if employees perceive a lack of equity in rewards, they may lower their level of job performance or leave the organization. Cloninger, Ramamoorthy & Flood (2011) suggest that equality based reward systems have positive effects on citizenship behaviours.

4.1 Gender
The most commonly cited explanations of gender pay gaps are sexual discrimination and ‘glass ceilings’, in essence, the differential treatment of individuals based on their sex (UCEA, 2013b).

To explain the root of the gender inequality in reward systems, Blau & Kahn (2007) state differences in performance evaluation is a drive for gender differences in outcomes such as pay, promotions, or other organizational rewards. See sections 1.5.2 and 1.5.3 for gender implications of performance pay in higher education and education, the key finding being that female staff are more likely to feel appraisal decisions are biased and performance standards are not communicated well.


Blau, F. D., & Kahn, L. M. (2007). The gender pay gap: have women gone as far as they can?. *The Academy of Management Perspectives, 21*(1), 7-23.


