

SPECIAL  
POINTS OF  
INTEREST:

- Reward systems provide incentives for specific behaviors or outcomes.
- The effectiveness of reward systems is a result of psychological conditioning.
- Reward systems are effective whether the reward is a bonus, recognition in a meeting, or gain sharing.

# Management Systems Monthly

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## An Overview of Reward Systems

Remember when you were in school and you received a sticker on your paper for doing a good job? Remember how bad you felt the next time you received a paper back with no sticker? What had you done wrong? Why did the know-it-all next to you get a sticker when you didn't?

Rewards can make us from a young age act in a way that will result in gaining more rewards. Managers use this desire by creating reward

management systems to delineate the specific awards and how to obtain them.



When determining how to disseminate rewards, always keep company goals in mind.

Employees should be rewarded for behaviors or outcomes that align with the organization's goals

and desires. For example, if the organization wants to increase sales by 20%, it would either reward behaviors that would lead to an increase in sales, or it would reward employees who have an increase in sales.

Rewarding employees for positive behaviors that are not in line with goals will result in an increase in positive behaviors, but ultimately the organization will not accomplish much significant growth.

## Why Does It Work: The Psychology behind Employee Rewards

Managers begin issuing rewards to increase behavior. If the incentive is strong enough, employees begin to show the desired behavior. What causes this?

Generally speaking, this is a result of what psychologists refer to as "conditioning." Remember Pavlov and his dog? This is the same principle. When employees receive something as a result of their behavior, they will repeat the behavior as long as they continue to receive the reward. This applies to monetary rewards as well as recognition.

## CT ENTERPRISES

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## Research Articles Related to this Newsletter:

- Mobbs, D., Hassabis, D., Seymour, B., Marchant, J., Weiskopf, N., Dolan, R., and Frith, C. (2006) Choking on the money. *Association of Psychological Science*. 20, 955-962.
- Yannis, T., Iannis, S. Nikalaos, K. (2009). Performance management and reward. *Computational Methods in Science and Engineering, Advances in Computational Science*. 2. 909-912.
- Zenger, T. (1992). Why do employees only reward extreme performance? Examining the relationships among performance, pay, and turnover. *Administrative Science Quarterly*. 37, 198-219.

## Using What Works

Employees respond to recognition, whether that recognition comes from being given a bonus, being recognized as "Employee of the Month," or being sent on a special trip, right? Wrong.

Research suggests that employees respond to a particular reward depending on personal preference. While some people benefit more from monetary rewards, others prefer recognition in front of their peers. How should an organization choose?



**What should organizations use to motivate?**

There are not a lot of research studies that dictate which rewards work best or how do decide. This is where effective management comes in to play. With effective communication between direct line managers and executives comes the ability to tailor incentives to that departments' (or teams' or individual's) desires.

In large organizations, it may be more effective to create reward "packages" that allow employees to select a reward that best fits their preferences. This type of reward system has not been tested, however. This practice has much potential in the research world.