

## The Impact of Reward System on Employee Performance, Motivation and Retention in Non-Profit Organizations

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### ABSTRACT

*The study aimed for an in-depth qualitative understanding of the reward system within Pakistan's non-profit sector, adopting a qualitative case study methodology with interviews, observations, and document review across two organizations. The literature indicates a lack of study on reward systems in Pakistan's non-profit sector, despite being the critical component to organizational design. The objective of the study was to investigate and understand the impact of reward system in optimizing employee performance, motivation, and retention in non-profit organizations. This relationship is examined through the lens of expectancy theory. Twenty respondents from two non-governmental organizations were interviewed using a semi-structured approach. The findings suggest that a well-designed reward system leads to effective performance and motivates employees at the workplace. Additionally, employee satisfaction with rewards encourages them to stay with the organization, implying that organizations should prioritize attractive and equitable reward systems.*

**Keywords:** Reward System, Performance, Motivation, Retention, Expectancy Theory

### INTRODUCTION

Reward system is one of the crucial factors in organization's structure to manage the human capital (Noorazem et al., 2021). It provides specific guidelines for the organizations to develop and implement policies and practices to ensure positive performance outcomes supporting the achievement of organizational goals (Armstrong, 2006). A combination of both financial and non-financial rewards referred as total reward could be offered to manage and motivate employees by critically understanding the significance of the reward proposition with the value employees receive from their employment arrangements (San, Theen, and Hang, 2012).

To sustain human capital advantage and maximize organization's productivity and growth, organizations opt for the strategies that can be helpful to recruit, motivate and retain high-

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performing employees. In the context of non-profit organizations (NPOs), human capital advantage refers to the organization's ability to create a high-performing and motivated workforce to achieve its mandate and to attract donor funding intended to sustain a long-term presence in the host countries. By executing an effectively designed reward system, non-profit organizations can aim towards improved employee performance, motivation, and retention of competent workforce, thus ensuring stability by demonstrating their credibility to donor agencies.

Reward framework defines the guidelines to compensate and encourage employees to carry out their job, this includes both financial and non-financial incentives aligned with the requirements of a particular position within the organization and level of effort required to perform that specific job (Agwu, 2013). Pay satisfaction at individual level influences the behaviour of an employee, which ultimately becomes shared at all levels across the organisation having an impact on overall organizational performance (Gerhart and Rynes, 2003). Employees who are well compensated experience higher levels of satisfactions, tend to perform well and exhibit long term commitment towards the organization (Salah, 2016), showing the significant impact of reward system on organization's ability to keep employees motivated and retain competent employees (Sarkar, 2018). On the other hand, lack of appropriate financial reward and recognition could lead to lower satisfaction and potentially adverse performance (Salah, 2016).

Studies indicate that there is considerable amount of literature available on the role of reward system in maximizing employees' performance and motivation highlighting the significance of well-structured reward system as one of the key components to motivate employees achieve high performance. A major debate concerns whether financial rewards (salary, benefits, and bonuses) or non-financial rewards (recognition, purpose, and autonomy) are more effective in motivating employees serving in the non-profit sector. It is also argued that high financial rewards can compromise non-profit organization's social mandate as the donor funds could be diverted from core activities (Barman, 2007). On the other hand, lack of competitive compensation might increase organization's struggle to retain skilled employees, limiting their long-term impact (Barber and Bretz, 2000).

## **Research Questions**

The study seeks to examine the impact of reward system on employee performance, motivation, and retention. The following research questions are developed to address the objective:

- i. How does reward system impact employee performance in the context of expectancy theory in NPOs?
- ii. How does reward system drive employee's motivation in NPOs?
- iii. How can reward system be tailored to meet the expectations and needs of employees serving in NPOs to ensure their long-term retention?

The research questions are examined based on Vroom's Expectancy Theory (1964) of motivation. Thus, the conceptual framework of the study is grounded in Expectancy Theory.

### **Purpose of the Study**

The purpose of this study is to investigate the impact of a reward system on employee performance, motivation and their retention decisions in the non-profit sector through the framework of expectancy theory of motivation. The key consideration is to support organizations to understand the factors that facilitate enhanced performance and motivation at workplace and to offer practical recommendations for designing reward systems that align with the employee's perceptions and needs, fostering long-term commitment towards the organization.

The research considers two case studies of NPOs, implying a multiple case study approach to examine the similarities and dissimilarities among the reward systems of international non-governmental organization (INGO) and national non-governmental organization (NGO) operating in Pakistan, where retaining competent employees is significant for organization's long-term sustainability and donor confidence. Comparing these reward systems are crucial to understand its impact on employee performance, motivation and retention in non-profit sector as they operate under different conditions and face unique challenges. INGOs having international donor fundings have access to more resources, while NGOs either rely on local networks or INGOs for financial assistance and to support their operations. Examining the variations across these cases, the study aims to explore how employees perceive reward systems and how these perceptions affect motivation and retention decision. It addresses the key gap in the literature by offering practical insights for designing appropriate and effective reward systems tailored to the needs of non-profit organization.

### **Scope of the Study**

The study will contribute to comprehend on factors that lead to enhanced employee performance and workplace motivation, as a result impacting the retention decisions of employees in accordance with the reward offered to them in non-profit organizations. It will help to compare the reward system of both INGOs and NGOs and provide recommendations for human resources professionals to design appropriate reward systems keeping into account both financial and non-financial factors to maximise employee performance, foster motivation and commitment.

## **LITERATURE REVIEW**

This section presents literature on reward system, employee performance, motivation, and retention. The reward system is acknowledged as one of the significant human resources management (HRM) practices influencing employee motivation at workplace (Eerde, 2015). It refers to the structured approach organization's use to acknowledge, compensate, and encourage individuals to carry out their designated responsibilities at work (Agwu, 2013). Research shows a positive impact of both financial and non-financial incentives on employee's performance (Stajkovic and Luthans, 2003). Moreover, financial incentives further consist of direct and indirect components (Chiu et al., 2002). A reward system is a crucial factor in enhancing employee

satisfaction (Kathure, 2014): and provide explicit guidelines to the management to help optimize employee's performance (Abid and Tara, 2013).

It is worth mentioning that a reward system extends beyond just financial components; and takes non-financial components into consideration as a significant contributor of the workplace motivation (Agwu, 2013). Therefore, employees expect organizations to demonstrate fairness and transparency while deciding the reward composition (Nohria, Groysberg and Lee, 2008). In this regard, equity theory implies that individuals feel motivated when they perceive fairness in their rewards relative to their inputs and those of others (Eerde, 2015).

Literature suggests that reward and job performance maintain a close relationship whereby an effectively designed reward system leads to improved performance enabling employees to reach their highest potential. This is due to the reason that the satisfaction or dissatisfaction at workplace is driven by employee's perception of reward with respect to the expectations about how much they deserve for contributing their effort towards attainment of the organizational goals (Agwu, 2013). Competitive compensation is a crucial factor of organization's reward system, and employees often evaluate their incentives in comparison to others in the organization. However, in addition to financial incentives, other strategies such as recognition and selective task assignments serve to reinforce the performance-reward relationship (Shields et al., 2015).

A well-administered system linking performance and rewards, results in positive outcomes (Lawler, 2003). Financial incentives are typically recommended as an approach for improving performance and fostering motivation at workplace (Bonner and Sprinkle, 2002). While the non-financial incentives in organizations are mainly associated with recognition and performance feedback and are considered as valuable tools to manage outcomes. Therefore, performance feedback happens to be a crucial factor for offering qualitative or quantitative response on the past performance of the employees to drive performance and motivation in specific manner (Peterson and Luthans, 2006). Motivation is determining factor in shaping individual's behaviour and performance in completing specific tasks (Danish and Usman, 2010). Psychological research results also indicate that to improve motivation, an effective approach is to increase the link between performance and reward (Rynes, Gerhart and Parks, 2005).

It is evident that reward system carries significant impact on employee's performance and motivation thereby shaping their retention decision and commitment towards the organization. It defines how employees are recognized and rewarded in accordance with their value to the organization (Güngör, 2011). Human capital theory proposes that employees receiving low pay demonstrate higher likelihood of leaving the organization than those being fairly compensated (Smith, 2017). Thus, retaining competent employees remains a key challenge for many organizations (Hausknecht et al., 2009); as one of the major reasons compelling employees to leave organizations is lack of effectively designed reward system (Herman, 2005).

It is important for the organizations to periodically review the reward system to maintain its competitiveness in the market and ensure that employees are well compensated. Such practices contribute to an improved perception of both the employee's contribution and the organization as a whole. Financial incentives are well recognized form of compensation that employees receive in exchange of their effort at workplace while non-financial incentives possess value but are not expressed in direct financial terms. When employees perceive that their contributions towards the organization are adequately rewarded, it enhances their motivation and encourages optimal performance. Furthermore, recognizing employees' achievements fulfils their motivational and psychological needs, which in turn fosters improved performance and strengthens their desire to retain their positions (Danish and Usman, 2010).

### Conceptual Framework

A conceptual framework helps to interpret results based on a specific model that integrates number of related concepts (Imenda, 2014). Referring to Vroom's expectancy theory of motivation, the focus here is to examine that the link of reward system with the performance. The theory suggest that motivation is mainly driven by three factors: expectancy, instrumentality and valance. The framework proposes that the reward system needs to be well aligned with the perception of the employees and well deserved by them. Motivation is perceived as the byproduct of employee's expectancy that a particular level of effort will lead to intended performance. Instrumentality is referred as individual's perception that certain performance will lead to achieve a particular result while valance is the value assigned to that result (Vroom, 1964).



**Figure 1: Conceptual Framework**

Vroom's Expectancy Theory offers a logical framework that aligns reward with effort and outcomes, ensuring that the reward received aligns with the employee's expectation and is well-deserved. Performance is linked to the employee's expectancy that the effort will result in desired outcome. The framework connects expectancy to performance, instrumentality to reward leading to workplace motivation, and valance to retention.

The theory is highly relevant to the non-profit sector, where employees often work in resource-constrained environments and seek alignment between their effort and meaningful recognition.

### **Knowledge Gap and Findings from Literature**

This study provides valuable insights to understand the factors that lead to enhanced performance, motivation, and retention in accordance with the rewards received by employees.

The literature identifies following research gaps:

- i. The literature on reward system suggest that the studies have taken into account different sectors, however, the impact on rewards system on employee performance and motivation has not been studies in the non-profit sector within Pakistan's context.
- ii. Different theories of motivation have been linked to employee performance and motivation in multiple sectors while there is a need of research in the context of Vroom's Expectancy Theory within non-profit sector. The theory explains how the decision making of individuals is based on expected outcomes of their actions at the workplace.
- iii. There is a need of research to identify factors that can help the non-profit sector to prudently design the reward system keeping into consideration both financial and non-financial incentives to enhance performance and motivation and to retain competent employees.

### **RESEARCH METHODOLOGY**

The key factor in determining the research design primarily depends on the nature of research problem. To have thorough understanding of the phenomenon under study, qualitative research strategy is adopted for this research. The method is suitable since qualitative research seeks to understand the underlying processes and meanings of a case, elements that cannot be studied through quantitative measures as the focus is in interpretation, not in verifying hypotheses. Moreover, qualitative research centres on real world settings (Silverman, 2021). The data collected through qualitative techniques strives to achieve higher levels of consensus and accuracy by revisiting facts, perceptions and experiences gathered during the process (Cho and Trent, 2006). Qualitative research approaches such as narratives, case studies, grounded theory, phenomenology, and ethnographies aim to interpret human experiences and social contexts using non- quantitative data (Kruth, 2015). Narrative research studies the phenomena in the natural settings and attempt to interpret it based on the meanings people bring to it (Moen, 2006). While the case study approach supports understanding the complex social phenomenon in real world settings (Yin, 2009).

The case study approach is one of the well-suited methodologies due to its ability to provide a comparative, comprehensive and contextual analysis. Although narrative research could offer valuable insights into individual experiences (Ritchie et al., 2013), the case study offers the

structured approach to examine and compare the organizations as a whole with respect to the research objectives of this study considering two cases, applying a multiple case study design to allow for comparisons and a broader understanding of the phenomena across diverse contexts (INGOs and NGOs). It is significant that the cases are chosen carefully allowing the researcher to predict similar or contrasting results (Yin, 2009).

The multiple cases provide valuable insights by highlighting similarities and differences within the reward systems by allowing an interactive and close relationship between the researcher and respondents. The contrast case study approach allows comparing and analysing two or more cases to highlight differences, identify patterns, and develop theoretical insights (Yin, 2017). The focus is primarily on how and why things are happening, helping to assess the contextual realities. However, the case study does not take into consideration the entire organization, rather the focus is on particular issue or phenomenon (Anderson and Arsenault, 2005).

For validating and strengthening the research results multiple techniques are combined in the case study approach to collect data (Noor, 2008). Given the flexible nature of case study approach, the use multiple sources for data collection facilitate triangulation (Denzin and Lincoln, 2011) and increases the validity of findings making the results more reliable (Baxter and Jack, 2008).

To ensure the variability of data, purposive heterogeneous nonprobability sampling is used to allow the researcher to choose respondents having diverse characteristics (Robinson, 2014). It involves human judgement and enables the researcher to explore diverse set of perspectives related to specific phenomenon (Guarte and Barrios, 2006).

For primary data collection, interviews are conducted from the employees of both the organizations. There could be either one-to-one direct interviews or interaction through group settings with the respondents (Leavy, 2014). The aim is to develop an in-depth understanding of the contextual factors impacting employee performance, motivation, and retention in the non-profit sector. Questions are designed thoughtfully to collect relevant data for the research using semi structured format. The preference for the semi structured format is due to its capacity to provide a flexible approach towards the respondents according to the responses received during the process ensuring that all the questions are answered properly (Noor, 2008). It is effective approach to identify the opinion and perception of the respondent regarding the complex and sensitive context and further helps in probing the data (Barriball and While, 1994).

To ensure triangulation of the primary data, the secondary data sources carry substantial significance. Therefore, to comprehend further the phenomena under study, organizational documents will be reviewed including annual reports, HR manuals and other HR memos and policies. Documents serve as the symbolic depiction of the data recorded for later retrieval and supports the validation of the information collected through alternate sources (Yin, 2009), which is interviews in this case (DiCicco-Bloom and Crabtree, 2006). In addition, the official websites of the organization are consulted to gain better understanding of the context in which they perform. Moreover, participant observations is piloted along with the interviews whereby researcher spent considerable amount of time in the organizations.

A major challenge in qualitative research lies in the analysis stage due to the flexible and interpretive nature of qualitative research (Gibson and Brown, 2009). The study adopts the framework method of analysis for its ability to identify similarities and dissimilarities within the data and seeking descriptive and/or explanatory results around the themes (Ritchie and Lewis, 2003). The common themes and trends are identified to analyse the results. Additionally, it helps to summarize the data and present a structure that reduces the data systematically while retaining the connection to original data.

In summary, the components of the case study approach in this research include its grounding in real-world non-profit organizations, the use of two cases, close interaction between the researcher and participants, the collection of qualitative data primarily through semi-structured interviews accompanied by participant observation and the review of organizational documents, and a focus on data triangulation for validation.

### **Research Philosophy**

The paper adopts Interpretivism since the focus is on employees' subjective experiences, perceptions, and interpretations regarding reward systems (e.g., fairness, recognition) and how these shape performance, motivation and retention. Interpretivism is a paradigm that emphasizes a subjective perspective and is primarily concerned with in-depth factors related to a specific context (Alharahsheh and Pius, 2020). It operates under the assumption that human beings cannot be explored in the same way as physical phenomena. Moreover, it recognizes that different social realities exist that are influenced by circumstances, cultures, and historical periods (Ryan, 2018).

Interpretivism acknowledges that employee motivation and retention are shaped by individual beliefs, perceived fairness, and the workplace's social context, particularly within mission-driven non-profit organizations. This paradigm allows researchers to explore how employees interpret and respond to different types of rewards including financial and non-financial, and how these interpretations shape their performance, motivation and retention decisions.

### **Case "A" International Organization**

Case "A" is an international non-governmental organization founded in 1993. The organization's headquarters are located in France and operates in over 40 countries, focusing on humanitarian aid, development, and environmental projects. It has been operative in Pakistan since 1995, with a strong presence in Khyber Pakhtunkhwa, the Federally Administered Tribal Areas, Sindh, Punjab, and Baluchistan provinces. The organization has implemented over 216 projects, benefiting more than 20 million people across Pakistan. Its allowed to work in Pakistan through a Memorandum of Understanding (MoU) signed with the Interior Ministry of the government of Pakistan, which permits it to function as an international non-governmental organization in the country.

Case "A" maintains a well-established HR system. This system follows rules detailed in the organization's global manual. All its policies and rules require approval from the headquarter



in Paris before they are implemented. For its national staff in Pakistan, the terms and conditions of employment are governed by the Contract Act, 1872, currently enforced in Pakistan.

### **Case “B” National Organization**

Case "B" is the second case study, a national non-governmental, non-profitable, and non-political organization. Established in October 2005, it was officially registered in August 2007 under the Voluntary Social Welfare Agencies Ordinance 1961 ((XLVI of 1961) in Khyber Pakhtunkhwa and is involved in various humanitarian and development initiatives across Pakistan, particularly in Khyber Pakhtunkhwa and the Merged Districts. It has implemented 48 projects across various sectors, benefiting marginalized and vulnerable communities, including Afghan refugees.

### **Data Collection and Gaining access to the Cases**

The data collection process is the most important stage of the research, requiring proper planning, as the accuracy of the data is the basis for drawing final conclusions.

The initial step involved gaining access to the research cases. An email was sent to the heads of both the NPOs involved in the study. This email presented the objectives and nature of the research, informing them about possible benefits of the findings, and ensuring confidentiality of the organizations. Both organizations gave approval to conduct the research, subject to few terms and conditions, and extended support during the process.

### **Conducting Interviews**

The primary method for data collection was interviews. A proper interview schedule was designed; an email was sent to each respondent to confirm their availability and finalize the time and venue. Ten respondents were selected for each case, resulting in a total of 20 interviews being conducted.

Prior to the interview, respondents were asked about their choice of interview medium (preferred language). The interviews were recorded and later transcribed. Finally, the transcript was sent to each respondent in order to validate responses.

### **Data Analysis Tools and Techniques**

The analysis of qualitative data is typically in textual form after transcription and involves identifying patterns systematically within the text (Hennink, Bailey and Hutter, 2020). There are no specific standardized criteria for constructing qualitative data displays; however, researchers suggest different interpretation techniques and guidelines (Miles and Huberman, 1994). For the purpose of analysis, the responses from interviews are transcribed into textual format (Ritchie and Lewis, 2003). The analysis approach, especially in identifying themes, is largely shaped by the characteristics of the data being analysed. Different terms are used for themes, including codes (Miles and Huberman, 1994), category (Dey, 2003), and labels (Baptiste, 2001). A code is

conceptual or descriptive label that is assigned to excerpts of raw data during a process called ‘coding’ (Gale et al., 2013).

Qualitative research literature outlines various methods for identifying themes; however, thematic analysis is considered an appropriate approach especially when a study involves multiple cases and seeks to find commonalities and differences among them. This technique is useful for identifying and analysing similar patterns called themes (Ryan and Bernard, 2003), and report patterns (themes) within data (Braun and Clarke, 2006). It is a systematic approach to collect, reduce, display, and interpret data, while ensuring reliability and validity (Alhojailan, 2012).

### **Data Analysis through Ritchie and Lewis Framework Method**

In this study, the Framework Method, as outlined by Ritchie and Lewis (2003), was employed for data analysis. This method is preferred because it facilitates the identification of commonalities and differences within the dataset and supports both descriptive and explanatory thematic conclusions.

<b>Step</b>	<b>Stage</b>	<b>Description</b>
1	Familiarization with the Interview	Comprised of conversion of audio interviews into accurate written transcripts by examining the data through detailed reading and initial note taking.
2	Developing a Thematic Framework	Assigned labels to data segments to identify meaningful patterns and themes. Creating a structured set of categories to guide thematic analysis.
3	Indexing	Systematically indexing of data was conducted using the established framework.
4	Charting	Organized coded data into thematic matrices for cross-case comparison.
5	Interpreting the Data	Synthesized insights and drew conclusions grounded in the data.

### **Quality Issues**

#### ***Credibility***

To ensure the credibility, the qualitative research approach needs to be reliable and valid. Reliability refers to the stability and consistency of the same research results on repeated occasions while validity is how accurately study reflect the participants' experiences and perspectives (Bannigan and Watson, 2009). Therefore, it is crucial to adopt a well-established research approach and to establish trustworthiness to ensure creditability (Shenton, 2004).

Triangulation ensures to confirm reliability through using a combination of data collection approaches such as interviews, observation along with documentary analysis (Patton, 1999). In this study to ensure creditability, the semi-structured interviews are combined with documents review and participant observation.

### ***Transferability***

Transferability refers to the extent to which the findings can be transferred to other groups or contexts. This could be achieved through providing an accurate description of the research context, data collection approaches, characteristics of the sample, and analysis process. Research findings articulated vigorously along with proper citations enhance the transferability (Graneheim and Lundman, 2004). In addition, the findings must be understood in the light of particular geographic context where the research is carried out (Shenton, 2004).

The sample of the study includes two cases- an INGO and NGO operating in Pakistan. The results show similarities as well as dissimilarities in how each organization functions. By providing detailed contextual descriptions of both the cases, the study supports transferability, ensuring to assess the relevance of findings to other organizational settings.

### ***Dependability***

Dependability refers to the extent to which the research finding remain consistent when repeated. To ensure dependability, it is significant to describe the research process in detail to help future researchers to replicate the work conveniently. To deal with dependability concern, the process of the research should be described in detail as to make it convenient for future researcher to repeat the work (Shenton, 2004). Therefore, the context of the study is discussed thoroughly to enhance dependability of the research.

### ***Confirmability***

Confirmability refers to the extent to which the researcher can ensure the trustworthiness of qualitative research, emphasizing that findings should be shaped by participants and context rather than researcher bias (Lincoln and Guba, 1988). A helpful approach to ensure confirmability is through triangulation (Shenton, 2004). To ensure confirmability of the study, observations and document review are performed along with semi-structured interviews.

### ***Analysis of Case “A”***

Case A, an international organization, has an established HR framework guided by its global HR manual. However, the policies for the Pakistan are tailored to reflect the local laws and context. The reward system includes both financial and non-financial incentives. Financial rewards include a monthly fixed salary, life insurance, health insurance, mission (travel) allowance, communication allowance (position-based), and transportation allowance (for female employees only). Health insurance covers the employee and parents for unmarried staff, and spouse and three children for married staff. The health insurance generally does not include OPD coverage except for support staff. In addition, employees are registered with EOBI for their pension. Furthermore, staff benefits include two annual leaves, one sick leave per month, and additional special event leaves in accordance with the HR manual.

Salary increases happen twice a year following staff appraisals: a seniority-based raise (one grade jump) in July for employees completing a year of service, and an inflation-based raise (aligned with the Government of Pakistan's announced rate) in January for all staff regardless of their job duration. In case of emergencies, employees can request a 50% advance salary which needs to be reimbursed by month-end. Moreover, employees receive Time off in Lieu (TOIL) payment for working on weekends or public holidays. A thirteen months' salary is provided on pro rata basis at the end of July to employees who have completed one year of service with the organization.

Non-financial rewards include appreciation letters for extraordinary performance, recognition of services (usually verbal during weekly coordination meetings), training opportunities relevant to terms of reference, assignment of challenging tasks for capacity building, and team building activities. Accommodation facilities are also provided for top and middle management relocated from other provinces.

It is worth mentioning that Performance is linked to both financial and non-financial incentives, and a well-designed system is considered important for motivation. Financial rewards are regarded particularly important as they are tied to performance and family livelihood; financial satisfaction improves mental satisfaction and performance. However, non-financial rewards add value, especially for mid-level career staff, "good words" and appreciation from immediate bosses are key motivators, while lack of satisfaction or negative feedback can be disappointing. Thus, recognition from senior leadership contributes to improved performance and high morale.

Regarding motivation, factors vary but commonly include job security, appreciation from senior management, and recognition of work. Recognition and appreciation are seen as crucial factors to increase dedication toward fulfilling professional responsibilities. Employee satisfaction with rewards was mixed. A significant concern for most employees was job insecurity, specifically the absence of a gratuity fund upon leaving, which could lead to financial crises. A review of staff's exit pattern shows that some of the overall staff changes primarily involved project staff whose roles concluded with the end of their respective projects.

It was evident that the managerial staff often faced a complex reporting structure with two supervisors, though access to senior management was easy. Dissatisfaction was also noted regarding the limited health insurance coverage, with a desire for OPD to be included for all staff.

Team building is considered a reward, especially in field operations, helping develop professional capabilities and cope with difficult situations. Promotion is another recognized non-financial motivator, reflecting growth and development. The study indicated that adequate growth opportunities are provided, with many employees advancing from initial positions.

Concerns were noted regarding the seniority jump policy, with some suggesting it should consider overall duration with the organization, even with breaks in service specifically for that of project-based staff. Employees also highlighted the need for financial rewards that align with their needs, skills, abilities, and the inflation rate for long-term retention.

### **Analysis Case “B”**

Case B is a national organization that, while having an HR department, does not have a fully developed HR structure. The organization's reward system includes both financial and non-financial incentives. Employees have one-year employment contracts for head office staff, while the contracts of field staff are for the duration of the project.

The financial rewards include a monthly fixed salary, life insurance, health insurance, communication allowance, and a thirteen months' salary (which is a bonus equivalent to one month's salary paid at the end of year). Employees are also registered with the Employees Old-Age Benefits Institute (EOBI). Salary increases are given annually following staff appraisals. However, a significant issue identified is the lack of a proper salary grid, resulting in incentives and salaries differing for staff working on the same position, leading to concerns about lack of internal equity. For staff working in field operations, pick and drop service is also provided. The organization provides health insurance covering employees and their dependents for IPD (Inpatient Department) only.

Regarding non-financial rewards, it includes trainings and recognition. However, trainings are primarily confined to project activities, while there is no proper training follow-up database maintained. Recognition is acknowledged, with one respondent mentioning receiving a certificate for excellent performance which raised commitment, though they felt there was less general appreciation. The non-financial factors mentioned as important for enhancing performance include a friendly working environment, performance appraisal, exposure visits, and seminars.

Financial rewards are seen as highly motivating for achieving organizational goals. Particularly for those on short-term assignments, appropriate financial rewards drive individuals to work harder. Better financial rewards are believed to result in more satisfactory overall performance, especially compared to organizations offering lower packages. An equitable reward system and job performance have a close relationship; a fair reward for good performance encourages individuals to improve productivity. However, the perceived lack of fairness in compensation and appreciation in Case B can negatively impact commitment and feelings.

## **DISCUSSION**

The comparative analysis of Case A and Case B shows key similarities and differences in their reward systems and their impact on employee motivation, performance, and retention. Both organizations employ financial and non-financial incentives, yet the structure and perceived effectiveness of these rewards vary significantly.

Case A has a well-structured financial reward system, including bi-annual salary increments (seniority-based and inflation-adjusted), comprehensive health insurance (though lacking OPD for non-support staff), and additional benefits such as TOIL payments and a pro-rated thirteenth-month salary. These rewards are closely tied to performance appraisals and reinforce expectancy theory whereby employees believe effort leads to performance, which in turn

leads to rewards. Case B, while offering financial incentives such as annual salary increases and a thirteenth-month bonus, lacks a standardized salary grid, leading to internal inequity where employees in similar roles receive different compensation. This undermines the instrumentality, the belief that performance leads to rewards, as employees perceive unfairness, leading to lack of motivation.

A critical concern in both cases is job insecurity, particularly for project-based staff. However, Case A mitigates this somewhat through structured benefits like EOBI registration, whereas Case B's lack of long-term contracts exacerbates anxiety, negatively affecting retention.

Both organizations utilize non-financial rewards, but Case A has a more systematic approach, including appreciation letters, recognition in meetings, challenging assignments, and team-building activities. These align with valence, the value employees assign to rewards, as mid-career staff particularly value recognition and growth opportunities. Case B relies more on informal recognition (e.g., occasional certificates) and training tied to project needs. However, the lack of a structured follow-up system reduces the perceived value of these rewards.

Verbal appreciation and senior leadership recognition emerged as strong motivators in Case A, reinforcing Vroom's expectancy theory where employees feel valued, enhancing performance. In contrast, Case B's inconsistent recognition practices lead to dissatisfaction, weakening motivation. Case A's dual reporting structure creates complexity but ensures accessibility to senior management, balancing supervision with support. Case B lacks a formal HR structure, leading to inconsistent reward distribution and perceived inequity, which demotivates employees.

Case A's structured rewards (e.g., seniority-based raises, health benefits) enhance retention, though employees desire OPD coverage and gratuity funds for long-term security. Case B, on the other hand, faces higher turnover risks due to short-term contracts and unfair compensation practices, highlighting the need for a transparent salary grid.

## FINDINGS

Financial rewards are crucial but must be perceived as fair. Employees in both cases value financial incentives, but internal equity as seen in Case A's gradual increases is key factor for motivation. Case B's inequitable pay structures reduce trust and performance. Similarly, non-financial recognition significantly boosts morale. As evident that consistent appreciation Case A enhances motivation.

One of the critical factors for employees is job security as it influences retention. Project-based staff in both organizations express concerns, but Case A's additional benefits (EOBI, thirteen-month salary) provide more stability than Case B's purely contractual approach. Employees in both cases desire expanded coverage (particularly OPD), indicating that benefits must evolve with employee needs.

## CONCLUSION

The study examines the impact of reward system on employee performance, motivation, and retention within non-profit sector, employing Vroom's expectancy theory as a framework. The purpose is to understand how rewards systems determine employee performance and motivation and to identify the crucial factors to be taken into consideration while designing effective reward system to retain competent and high performing employees. Expectancy theory posits that motivation stems from an employee's perception that their effort will result in desired performance. The conceptual framework integrates expectancy, instrumentality, and valence to explain performance, motivation and retention.

This comparative analysis of Case A and Case B underscores the critical role of structured, equitable reward systems in enhancing employee performance, motivation and retention within Pakistan's non-profit sector. Case A's performance-linked approach—featuring standardized salaries, comprehensive benefits (e.g., life insurance, IPD coverage), and biannual appraisals—demonstrates stronger alignment with expectancy theory, where transparent effort-reward linkages foster higher satisfaction. In contrast, Case B's ad-hoc system, marked by internal inequity (e.g., role-based pay disparities, limited benefits) and inconsistent recognition, exacerbates dissatisfaction, particularly among project-based staff. The findings highlight that financial rewards (salary equity, job security) and non-financial rewards (performance feedback, ownership opportunities) are mutually reinforcing, yet their effectiveness hinges on systematic implementation. For policymakers, this implies a need to prioritize transparent salary grids, regular performance evaluations, and holistic benefits packages. While Case A offers a replicable model, contextual adaptations—such as addressing job insecurity in project-based roles—remain essential. Future research could explore longitudinal impacts of such systems on sector-wide retention rates.

The research seeks to offer practical recommendations for designing reward systems that align with employees' needs and encourage employee retention in the non-profit organizations in Pakistan. However, the research carries some limitations that include its main focus on the non-profit organizations (NPOs) in Pakistan, which may restrict the generalizability of the findings to other geographical locations. Moreover, the study is contextualized within the expectancy theory of motivation, which means that the findings will be interpreted through this particular theoretical framework and other motivational theories are not explicitly explored in the primary analysis.

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