



***IMPACT OF REWARD AND COMPENSATION ON EMPLOYEE WORK  
ENGAGEMENT***

**1. Anand Kumar D**

*MBA Student, Faculty of Management Studies, CMS Business School, JAIN (Deemed-to-be University), Bengaluru, Karnataka, India.*

**2. Dr. Neena P C,**

*Associate Professor – OB & HRM, Faculty of Management Studies, CMS Business School, JAIN (Deemed-to-be University), Bengaluru, Karnataka, India.*

**Abstract**

Employee work engagement has emerged as a key determinant of organizational performance in today's competitive business environment. This study examines how reward and compensation practices influence the level of work engagement among employees across various industries in India. A quantitative research design was adopted, with primary data collected from 190 respondents spanning the IT, manufacturing, banking, healthcare, and education sectors using a structured five-point Likert scale questionnaire.

Data were analyzed using descriptive statistics, correlation analysis, and regression analysis through Microsoft Excel and PSPP software. Results confirm a strong positive relationship between compensation and employee work engagement ( $r = 0.989$ ) and a moderate positive relationship between reward systems and engagement ( $r = 0.585$ ). Both hypotheses were accepted, validating that compensation and rewards significantly influence employee engagement. Compensation emerged as the more dominant factor, while non-monetary rewards such as recognition and appreciation played a meaningful supporting role. The findings align with the Social Exchange Theory and the Job Demands-Resources Model. Organizations are encouraged to design integrated reward and compensation strategies to foster sustained employee engagement.



**Keywords:** Employee engagement, Compensation, Reward systems, Non-monetary rewards, Work motivation, Human resource management.

## 1. Introduction

The modern business environment is characterized by rapid globalization, technological disruption, and intense competition. In this context, organizations have recognized that employees are not merely resources but strategic assets whose commitment and involvement directly impact organizational success. Employee work engagement defined as the degree of energy, dedication, and absorption an individual brings to their role has become a central concern in human resource management (HRM).

Among the many HRM levers available, reward and compensation systems are considered especially powerful in shaping employee attitudes and behaviors. Compensation refers to the monetary benefits provided to employees, including salary, bonuses, allowances, and welfare benefits. Rewards encompass both financial incentives such as performance bonuses and non-financial incentives such as recognition, career growth, and work-life balance policies.

Organizations have traditionally relied on monetary compensation as the primary motivational tool. However, growing evidence suggests that non-monetary factors including appreciation, autonomy, and development opportunities are equally important for sustaining engagement. This study investigates the combined and comparative influence of compensation and reward systems on employee work engagement across multiple industry sectors in India.

## 2. Literature Review

### 2.1 Reward and Compensation Systems

Reward and compensation represent a broad set of material and non-material benefits offered in exchange for employee contributions. Compensation covers direct monetary payments such as wages, salaries, and bonuses, while rewards extend to career advancement, recognition, health coverage, and flexibility (Armstrong, 2012). The evolution from purely wage-based systems to a 'Total Rewards' approach reflects growing awareness that both economic and psychological needs must be addressed to drive sustained engagement (Phukan et al., 2025).



## **2.2 Concept of Work Engagement**

Work engagement is an affirmative psychological state comprising three dimensions: vigor (high energy and resilience), dedication (sense of meaning and pride), and absorption (full immersion in work) (Schaufeli et al., 2002). Engaged employees consistently outperform their disengaged counterparts and demonstrate lower turnover intentions and stronger organizational loyalty (Bhatnagar, 2012).

## **2.3 Theoretical Foundations**

Several well-established theories underpin the relationship between rewards and engagement. The Social Exchange Theory (Blau, 1964) posits that employees reciprocate fair organizational treatment with increased engagement. The Job Demands-Resources (JD-R) Model identifies compensation and recognition as critical job resources that buffer against burnout and build motivation. Expectancy Theory (Vroom) highlights that motivation depends on the perceived link between effort, performance, and reward. Equity Theory (Adams) emphasizes that perceived fairness in compensation distribution directly affects employees' willingness to engage. Self-Determination Theory adds that intrinsic motivation driven by non-monetary rewards promotes deeper and more sustained engagement than extrinsic financial incentives alone.

## **2.4 Empirical Evidence**

Studies across diverse sectors confirm that competitive compensation improves performance and short-term satisfaction (Kamselem et al., 2022), while non-monetary rewards such as recognition, career development, and flexibility have a stronger influence on long-term engagement (Argyrouli & Saade, 2022). Perceived fairness in both pay distribution and reward allocation is a critical mediating factor (Qiu & Rojniruttikul, 2025). Despite this body of work, there remains limited integrated research examining both reward and compensation simultaneously in their effect on employee engagement, particularly within the Indian multi-sector context.

## **3. Research Methodology**



### 3.1 Research Design

This study adopted a descriptive and analytical quantitative research design. The descriptive component profiles employee perceptions of compensation and rewards, while the analytical component tests hypothesized relationships using statistical methods.

### 3.2 Data Collection

Primary data were collected through a structured online questionnaire administered via Google Forms. The questionnaire consisted of four sections: (A) demographic information, (B) compensation perceptions, (C) reward system perceptions, and (D) work engagement levels. All attitudinal items were measured on a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). A pilot test was conducted to refine the instrument before full deployment.

### 3.3 Sample

A convenience sample of 190 employees was drawn from diverse industry sectors including IT (16%), manufacturing (17%), banking and finance (15%), healthcare (16%), education (22%), and others (14%). The mean age of respondents was 26.01 years ( $SD = 2.67$ ) and mean work experience was 3.08 years ( $SD = 1.44$ ). The sample comprised 69% male and 31% female respondents.

### 3.4 Reliability

Cronbach's Alpha coefficients were computed to assess internal consistency: compensation ( $\alpha = 0.78$ ), rewards ( $\alpha = 0.81$ ), and work engagement ( $\alpha = 0.84$ ). All values exceed the acceptable threshold of 0.70, confirming instrument reliability.

### 3.5 Hypotheses

The following hypotheses were tested:

- H01: There is no significant relationship between compensation and employee work engagement.
- H02: There is no significant relationship between reward systems and employee work engagement.



- H11: Compensation has a significant positive relationship with employee work engagement.
- H12: Reward systems have a significant positive relationship with employee work engagement.

### 3.6 Data Analysis

Data were analyzed using Microsoft Excel for descriptive statistics and PSPP for correlation and regression analysis. The significance level was set at  $\alpha = 0.05$ .

## 4. Results and Discussion

### 4.1 Descriptive Statistics

Table 1 presents the mean and standard deviation for the three primary variables. Compensation received the highest mean score ( $M = 3.63$ ,  $SD = 0.70$ ), indicating relatively high and consistent satisfaction. Rewards scored moderately ( $M = 3.39$ ,  $SD = 1.20$ ), with greater variability suggesting mixed perceptions across organizations. Work engagement showed a moderate-to-high mean ( $M = 3.45$ ,  $SD = 1.23$ ), reflecting overall positive engagement with room for improvement.

**Table 1: Descriptive Statistics of Key Variables (N = 190)**

Variable	Mean	Std. Deviation
Compensation	3.63	0.70
Reward System	3.39	1.20
Work Engagement	3.45	1.23

### 4.2 Correlation Analysis

Pearson correlation coefficients were computed to test the direction and strength of relationships between variables (Table 2). A very strong positive correlation was found between compensation and work engagement ( $r = 0.989$ ,  $p < 0.05$ ), indicating that employees who perceive their compensation as adequate and fair are substantially more engaged. A



moderate positive correlation was found between rewards and work engagement ( $r = 0.585$ ,  $p < 0.05$ ), confirming that recognition and incentive systems also contribute meaningfully to engagement levels. Both null hypotheses (H01 and H02) were rejected, and the alternative hypotheses (H11 and H12) were accepted.

**Table 2: Correlation Matrix**

Variable	Work Engagement	Rewards	Compensation
Work Engagement	1.000	0.585	0.989
Rewards	0.585	1.000	0.557
Compensation	0.989	0.557	1.000

### 4.3 Regression Analysis

Regression analysis was conducted to examine how demographic variables influence compensation and reward perceptions. Education emerged as the only statistically significant predictor of both compensation perception ( $\beta = -0.25$ ,  $p = 0.001$ ) and reward perception ( $\beta = -0.24$ ,  $p = 0.001$ ). Other demographic variables gender, age, work experience, and industry were not significant predictors. The adjusted  $R^2$  values of 0.08 (compensation model) and 0.09 (reward model) indicate that demographic factors explain only a small portion of variance in perceptions, suggesting that reward and compensation strategies can be broadly applied across diverse employee groups.

**Table 3: Regression Results – Demographic Predictors of Compensation and Reward Perceptions**

Predictor	Beta (Compensation)	p-value	Beta (Reward)	p-value
Gender	-0.07	0.311	-0.12	0.102
Age	0.00	0.952	0.03	0.685
Education	-0.25	0.001	-0.24	0.001



Work Experience	-0.02	0.728	-0.02	0.827
Industry	-0.04	0.584	-0.09	0.196

*p < 0.05 (statistically significant)*

#### 4.4 Key Findings

The following key insights emerged from the analysis:

- Compensation is the strongest driver of employee work engagement, with a near-perfect positive correlation ( $r = 0.989$ ). Competitive salaries, fair performance appraisals, and comprehensive benefit packages are essential foundations of engagement.
- Reward systems show a moderate but meaningful positive association with engagement ( $r = 0.585$ ). Non-monetary rewards particularly recognition, appreciation, and acknowledgment are critical for meeting employees' psychological and emotional needs.
- An integrated approach combining both compensation and reward yields superior engagement outcomes compared to either strategy in isolation.
- Perceived fairness in compensation and reward distribution is a critical determinant of employee attitude and motivational levels.
- Demographic variables (gender, age, experience, industry) have minimal influence on reward and compensation perceptions, supporting the use of generalized reward strategies.
- Education level is the only demographic factor that significantly differentiates perceptions, suggesting that organizations may consider tailoring reward communication to employee educational backgrounds.

#### 4.5 Discussion



The findings strongly support the Social Exchange Theory: when organizations invest fairly in compensation and meaningful rewards, employees reciprocate with heightened engagement. The dominant influence of compensation corroborates earlier studies from developing economy contexts where financial security remains a primary driver (Kamselem et al., 2022). However, the significant, if moderate, effect of reward systems reinforces that engagement cannot be sustained on monetary factors alone.

The role of non-monetary rewards aligns with Self-Determination Theory recognition and appreciation satisfy the psychological needs for competence and relatedness, fostering intrinsic motivation that sustains engagement beyond what financial incentives can achieve. These findings are also consistent with the JD-R Model, wherein compensation and recognition function as job resources that reduce demands and build work motivation.

The low variance explained by demographic predictors (Adj.  $R^2 = 0.08-0.09$ ) is an important managerial insight: effective reward and compensation designs tend to resonate across different age groups, genders, and experience levels, making integrated HR strategies broadly applicable across an organization's workforce.

This result clearly shows that compensation plays a more important role in influencing employee engagement compared to rewards. One possible reason is that employees, especially in the early stages of their careers, focus more on financial stability and security. When employees feel that they are paid fairly, they tend to be more committed and involved in their work.

At the same time, rewards such as recognition, appreciation, and career growth opportunities also contribute to engagement, but they act as supporting factors rather than the main drivers. This means that organizations should not depend only on non-monetary rewards to improve engagement.

Overall, the findings suggest that companies should first ensure fair and competitive compensation and then strengthen it with effective reward systems. A balanced approach can help in improving both employee satisfaction and long-term engagement.

## **5. Conclusion**



This study establishes that both compensation and reward systems are significant determinants of employee work engagement. Compensation through salary adequacy, benefit provision, and appraisal fairness demonstrates the strongest influence, forming the economic foundation of engagement. Reward systems, particularly non-monetary forms such as recognition, feedback, and career development, fulfill deeper psychological needs and serve as equally indispensable complements.

Organizations seeking to improve engagement should pursue a balanced 'Total Rewards' strategy that addresses both financial and non-financial dimensions. Fairness and transparency in the allocation of rewards are critical enablers. These insights are practically applicable across the IT, manufacturing, banking, healthcare, and education sectors, given that demographic heterogeneity has minimal influence on reward perceptions.

Future research should explore mediating variables such as job satisfaction and organizational commitment, adopt longitudinal designs to capture changes over time, and investigate sector-specific reward preferences using advanced structural equation modeling techniques.

From a practical point of view, organizations should focus on creating a balanced reward strategy that includes both financial and non-financial benefits. HR managers should ensure that compensation policies are fair, transparent, and regularly updated based on market standards.

In addition, companies should also give importance to employee recognition, feedback, and career development opportunities. These factors help in building a positive work environment and improving overall employee motivation.

## **6. Limitations of the Study**

This study has certain limitations that should be considered while interpreting the results. The sample size was limited to 190 respondents, which may not fully represent all industries or regions. The study also used convenience sampling, which may affect the generalizability of the findings.

Additionally, the data was collected using self-reported questionnaires, which may include some level of personal bias. Future studies can address these limitations by using larger and more diverse samples.



## 7. Future Scope of the Study

Future research can be conducted with a larger sample size covering more industries to improve the accuracy of results. Researchers can also study additional factors such as job satisfaction, leadership style, and organizational culture to understand their impact on employee engagement.

Longitudinal studies can be carried out to examine changes in employee engagement over time. Advanced statistical tools can also be used for deeper analysis and better insights.

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