

**PERFORMANCE RELATED REWARD SYSTEM AND  
EMPLOYEE PERFORMANCE: A STUDY OF DOMESTIC  
AND INTERNATIONAL APPAREL FIRMS IN SOUTHERN  
PROVINCE OF SRI LANKA**

*By*

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**A thesis submitted to the University of Sri Jayewardenepura in  
partial fulfillment of the requirements for the Degree of Master of  
Business Administration**

## DECLARATION

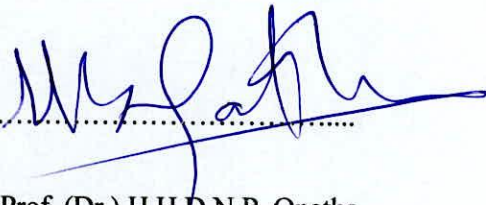
I I.L. Luchini Sagalee (5266 FM 2011092) hereby declared that, the thesis entitled as "Performance Related Reward System and Employee Performance : A Study of Domestic and International Apparel Firms in Southern Province of Sri Lanka" was carried out by me under the supervision of Senior Prof. (Dr.) H.H.D.N.P.Opatha for the partial fulfilment of the requirements for the Degree of Master of Business Administration of University of Sri Jayawardenepura and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree/ Diploma.

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## CERTIFICATION

I certify that, the above statement made by the candidate is true and that this thesis entitled as "Performance Related Reward System and Employee Performance: A Study of Domestic and International Apparel Firms in Southern Province of Sri Lanka" is suitable for submission to the University for the purpose of evaluation.



Senior Prof. (Dr.) H.H.D.N.P. Opatha

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## ABSTRACT

The objectives of this study were to investigate whether the perceived degree of performance related reward system positively and significantly related to perceived degree of employee performance in domestic and international apparel firms; To investigate whether there is a significant difference between domestic and international apparel firms with regard to perceived degree of performance related reward system; To investigate whether there is a significant difference between domestic and international apparel firms with regard to perceived degree of employee performance; To investigate whether there is a mediation effect of employee motivation and moderation effect of quality of work family balance on the relationship between perceived degree of performance related reward system and perceived degree of employee performance in domestic and international apparel firms in Southern Province of Sri Lanka.

Five hypotheses were formulated using deductive approach. Type of investigation was correlation and it was cross-sectional in time horizon. The unit of analysis was organizational level: Production manager of the firm. Production manager served as the respondent on behalf of the firm. Measures of the study were of good quality after assuring reliability and validity. Data were possible to be collected from a sample of 87 apparel firms from 128 apparel firms in Southern Province of Sri Lanka.

In order to test the first hypothesis that was concerned with relationship between two variables, the Pearson Product-Moment Correlation technique was applied. The second hypothesis and third hypothesis were concerned with difference between two groups in

relation to one variable, Independent Sample T test was applied. To test the fourth and fifth hypotheses Baron and Kenney procedure and regression with an interaction term were used respectively.

The results of the study showed a significant and positive relationship between perceived degree of performance related reward system and perceived degree of employee performance. The found relationship (correlation coefficient was 0.439 that was significant at .0005) implying that an apparel firm, though it is domestic or international apparel firm, should adopt more performance related rewards. Further, the study revealed that there is a significant difference between international apparel firms and domestic apparel firms in relation to perceived degree of performance related reward system. There is no statistical evidence to prove the third hypothesis, that there is a significant difference between the perceived degree of employee performance of domestic and international apparel firms. Further the study was restricted to measure the fourth and fifth hypotheses, the mediation effect of employee motivation and the moderation effect of the quality of work family balance on the relationship between the perceived degree of performance related reward system and perceived degree of employee performance.

Key words: Performance related reward system, Employee Performance, Domestic and International Apparel Firms.

## Chapter One

### Introduction

#### 1.0 Background of the study

Compensation systems have been shifting from a fixed wage contractual payment basis in to the use of performance related reward systems around the world. Performance-related reward systems are the generic term for reward systems where the payments are based on the performance either of individual (individual performance-related pay) or a team of employee (group performance- related pay) or based on the performance of the organization. There has been a move towards performance-related reward systems where higher portion of employees depend on their performance. (Bryson, Freeman, Lucifora, Pellizzari and Perotin 2012).

Employees play a strategic role in achieving ultimate objectives in an organization. People are one of the most important factors providing flexibility and adaptability to organizations (Khatri 1999). They act as a major source of obtaining competitive advantage and they are responsible to convert inputs (money, machine, methods and material) in to productive outputs. Labour is the significant input in the process of production. It is the most important factor in increasing productivity, enhancing quality and reducing unnecessary movements and extra cost in an organization. Since employees are the key to achieve productive outputs they need to be rewarded fairly, equitably and consistently in accordance with their value to the organization.



Total reward describes a reward strategy that brings components such as learning and development together with aspects of the work environment, into the benefits package. In the total reward system both tangible and intangible rewards are considered valuable. Tangible rewards arise from transactions between the employer and employee and include rewards such as pay, personal bonuses and other benefits. Intangible rewards have to do with learning, development and work experience. Examples of these types of rewards include opportunity to development, recognition from the employer and colleagues, personal achievement and social life. The aim of total reward is to maximize the positive impact that a wide range of rewards can have on motivation, job engagement and organizational commitments (Armstrong and Duncan 2006).

The primary focus of the reward programs is to examine the extent to which organizations classify their reward schemes and how they communicate to the employees and how clearly they understand the relationship between reward and performance (Flynn 1998). The appropriate type of reward is developed in accordance to the company's reward philosophy, strategies and policy. However, it might be challenging to finding the right way to combine the company's integrated policies and practices together with the employee's contribution, skill and competence (Armstrong 1999). A well designed and functional reward system is an efficient way to increase employee. Deeprose (1994) stated that effective reward system improve employee motivation and increase employee productivity through better enhanced job performance. There is a very close relationship between motivation, job performance and employee productivity. All concepts are directly proportioned to each other.