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A STUDY OF THE FINANCIAL AND NON-FINANCIAL REWARDS ON EMPLOYEE'S MOTIVATION

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A Study of the Financial and Non-Financial Rewards on Employee's Motivation

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Abstract* – *The basic aim of this paper is to identify /investigate financial and non-financial rewards that affect the motivation of employees in organizations. The paper also not only discuss that the employee motivation is imperative for the overall organizational performance, but also talks about how to retain a motivated workforce in the organization (what if this study should include a specific industry or region. E.g education field, or any other sector; generalizes study won't have an impact). Motivation factors may be differing from industry to industry and class to class of employees such as high level and low level labor. The researchers have found from the survey that there are different factors that affect the motivation of employees which can be classified into two categories; financial and non-financial rewards. Although financial rewards are important for employee motivation in third world countries like India, where the inflation rate is so high that people are struggling hard to retain their social status but the importance of non-financial rewards cannot even be discriminated. The paper provides a basis to understand the issues of employee motivation in organizations. It is a good contributor to the knowledge world of human resource management which explores the factors that affect motivation of employees and provide a solution to the problems faced by employees at their jobs. The paper will also compel the management of studied organizations to pay their attention to the problems of employee motivation for the overall benefits of organizations.

Keywords: Financial, Non-Financial, Employee's, Motivation, Organization, Performance, Industry, Motivation, Employees, Importance, etc.

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INTRODUCTION

For today's organizations, the problem of how to effectively motivate staff is becoming an increasingly important issue. However, despite over 50 years of organizational research that demonstrates that employees are motivated by more than just money alone, many organizations continue to rely solely on financial rewards. It is perhaps understandable for organizations to make simplistic assumptions about the ability of financial rewards to influence employee motivation. Financial rewards are important as a mechanism to aid recruit and retain talent, and as a means of providing tangible recognition of effort or contribution. And after all, people generally want more money, don't they? Yet, the consequence of such an assumption has been to overemphasize the importance of financial reward. As this background study will illustrate, there are a whole host of alternative motivators that can act to influence employee behavior and enhance employee motivation. As many organizations are beginning to realize, competitive difference may ultimately be made by non-financial factors.

Managing reward is largely about managing expectations what employees expect from their employers in return for their contribution and what employers expect from their employees in return for their pay and the opportunity to work and develop their skills. Expectorations are built into the employment relationship, the starting point of which, from the rewards point of view, is an undertaking by an employee to provide effort and skill to the employer, in return for which the employer provides the employee with a salary or a wage. The purpose of managing the system of rewards within the organization is to attract and retain the human resources the organization needs to achieve its objectives. To retain the services of employees and maintain a high level of performance, it is necessary to increase their motivation and commitment. In effect the organization is aiming to bring about an alignment of organizational and individual objectives when the spotlight is on reward management.

Motivation is the act of giving somebody a reason or incentive to do something. It also means giving somebody hope or support to perform particular tasks. Motivation factor plays a vital role in business Management. The process of employee motivation in the workplace creates zeal and interest and commitment; energetic and unflagging enthusiasm that makes them do something, especially something that involves hard work and efforts. It thus must be borne in mind that a highly motivated employee uses his potentials to the optimum level and makes goal-directed efforts while raising the best level of efficiency towards the accomplishment of organizational objectives, whereas the one who's not motivated does not do so.

Much research on prevailing reward system has found that the reward would positively be associated with employee's performance. Consistently with this reasoning, an attempt was made to find how different components of reward system can influence employee performance. Also, focus is been given to reveal how the Banks under study are aligning their awards to motivate their employees and secure higher work performance from them.

- Employees Performance is taken as a dependent variable in the study to explore the impact of Reward on it. In analyzing performance dimensions of employees, eminence is been given to Management philosophy with regard to performance standards & work motivation of employees. High performance standards and high work motivation in employees depict the prominent performance level of employees in organization.

- Reward System is taken as an independent variable in this study with an objective to determine and explore its impact on performance. The Reward system involves the Financial as well as Non- Financial Rewards & Benefits offered to employee's .There are different dimensions of financial and Non-Financial rewards but with the objective of maintaining consistency and reliability in Research these variables have been defined in advance. In the scope of Financial Rewards, two variables have been taken as fixed pay and Variable pay. Similarly, in the span of Non- Financial Rewards, five variables have been defined as recognition, praise, achievement, responsibility and personal growth. These variables have been taken as per their relevance in the Reward System. These variables cover the important ways with which employees are been rewarded by Organization for the work and efforts. An attempt is been made to study these variables in detail in both the Organizations to get a clear implication of the Reward.

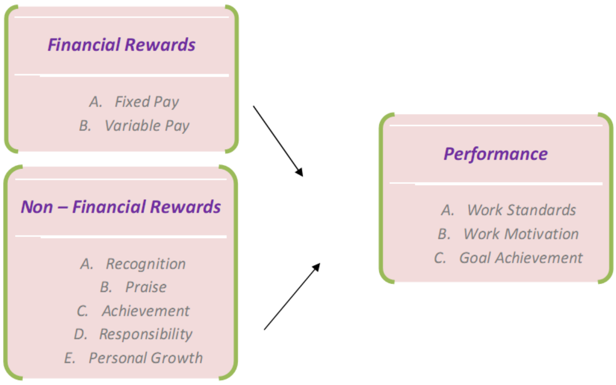

Figure 1- Impact of Reward System

Performance Dimensions: The Performance Dimensions Framework is designed to build capacity for effective management of organizational, team and individual performance. The Framework is used to assist managers and teams to analyze:

- The level to which the individuals are apparent and decided about expectations in terms of outputs, behavior & processes.

- The extent to which the individuals analyze and assess performance, feedback is sought, exchanged and acted upon.

- Motivational factors that impact upon performance – both intrinsic and extrinsic aspects.

- The working environment and culture and the extent to which staff, managers and employees support each other to achieve desired outcomes.

- The capacity and confidence (including skills, knowledge and expertise) of individuals to perform to the standards expected.

- The Organization Philosophy with regard to work standards and the tools used for enhancing the work performance of employees.

- The extent to which the performance appraisal system functions well and is accepted as toll of improvement and Learning.

- The working environment that helps employees to work with motivation & confidence and leads to attainment of individual and Organizational Goals.

- The extent to which the expected performance and its standards are communicated to employees and similarly and clearly understood by employees.

- The level up to which organization takes the initiative of organizing training for enhancing skills and abilities of employees with an objective to attain the desired outcomes.

The purpose of performance appraisal is to inform employees that the organization is interested in their professional development. It signals the message that employees contribution plays significant role in the organizational success. As a result, employees are motivated to contribute more towards the organizational success because they are given recognition and appreciation for their contribution. The performance appraisal motivates the competent employees by rewarding them. This is how less competent employees will get inspiration from competent employees and will be motivated to perform well. The employee will feel valued if they are given career development opportunities which will lead them to move one step ahead on the promotion ladder. The intent behind the organization's investment in the career development needs of the employees is to increase the employee self-esteem and motivation with their professional development. Employees are motivated if they are given opportunities for learning and growth because the learning opportunities lead them towards future promotions and career growth. So, the career development opportunity motivates the employees by aligning their expectation with the organizational goals.

REVIEW OF LITERATURE:

Motivation is a central element in a learning process of a human. In the organizational context, motivation plays an important role in ensuring organizational success as humans are the heart of an organization. Humans or employees without motivation are not able to carry out the job perfectly. If the organization is not able to motivate its employees, the knowledge within the organization is not efficiently used. Therefore, it becomes the aim of every organization to search for the clues to motivate employees; otherwise the organization will face difficulty to maintain its workforce thus achieving the goal.

It is widely accepted by organizational experts manpower is of the most valuable asset of every organization because work is carried out through human beings. The true success of an organization is dependent on employees. Organizational personnel can divert the direction of the organization from low profit to high profit and vice versa. The purpose of this study focuses on non-financial incentives and their impact on employees‟ motivation. It also focuses how much non-financial incentives are applied/ practiced in public sector employees. As non-financial incentives do not involve direct payment of cash to employees. It may be tangible or intangible. Some examples of non-financial incentives includes; involvement of employees in decision making, recognition of employees on desirable performance, assigning tough but attainable assignments, appreciating work through small gifts like plagues, ticket to restaurant etc. Financial incentives and rewards in the world are regarded to positively affect employees' commitment or loyalty. Employees stay in an organization because the costs for leaving the organization are higher than benefits to be a part of the organization. Financial incentives and rewards make continuation of the employment relationship because they create the basis for high levels of commitment and employee motivation. Firms must develop strategies that include financial incentives and rewards for example promotion, bonus, profit sharing or gain sharing and employees stock ownership (Development and Learning Organization, 2011). Employees want their performance be appreciated by offering those appropriate rewards and benefit package as an effective way not only to achieve their organizational goals but also their continuation of relationship with talented employees.

In the organizational context, performance is usually defined as the extent to which an organizational member contributes to achieving the goals of the organization. This is achievable by the organization setting up performance system involving the organization communicating its mission/strategies to its employees; setting of individual performance targets to meet employees' individual team and ultimately the organization's mission/strategies; the regular appraisal of these individuals against the agreed set targets; use of the results for identification of development and/or for administrative decisions; and the continual review of the performance management system to ensure it continues to contribute to the organizational performance, ideally through consultation with employees.

Timothy (2008) conducted a study on the impact of financial incentive mechanisms on motivation in Australian government large non-residential building projects. The primary aim of this research was to identify the motivation drivers impacting on the achievement of Financial Incentives Motivation goals. The research involved four major case studies of large construction projects. Analysis of motivation drivers on each project was based on interviews with senior project participants, secondary documentation and site visits (Timothy, 2008).

Oluseyi and Ayo, (2009) conducted a study on employee motivation. The study investigated influence of work motivation, leadership effectiveness and time management on employees' performance in some selected industries in Ibadan, Oyo State Nigeria. 300 participants were selected through stratified random sampling from the population of staff of the organizations. The study employed exposit facto design; data were collected through

Work Motivation Behavior Profile (= 0.89), Leadership Behavior Rating scale (= 0.88) and Time management Behavior Inventory = 0.90) adapted from Workers' Behavior Assessment Battery.

Shaw (2011) conducted a study in South Africa. The objective was to describe the relationship between corporate performance and CEO remuneration within the South African financial services industry. The research was quantitative, archival study, conducted over a six year time period. The primary statistical techniques used in the study included: bivariate regression analysis, multiple regression analysis and analysis of variance. The primary finding was that the relationship between corporate performance and CEO remuneration was favorable (moderate to strong), but had experienced a decline (Shaw, 2011). This finding emphasizes the impact that macroeconomic trends have on the relationship and the role of managerial power during periods of economic uncertainty. The results recommended that the use of discretion and the growing impact of managerial power will be the key challenges that remuneration committees will face in maintaining a favorable relationship between the two constructs in the future.

Indian Public Pay and Incentive Policy, (2010) provides a harmonized and unified framework for determining pay while eradicating pay disparities across the entire public service as stipulated in the Public Service Management and Employment Policy, (2008). This Government intervention is aimed at attracting and retaining well qualified personnel, in the public service, as well as motivating employees by addressing equitable remunerations across the service. There have been a number of valuable studies on pay related incentives to motivate employees using cross-section data (Burgess and Rato (2003); Kiwia (2004); Opu, (2008); Timothy, (2008); Shaw, 2011), all of which presented outcomes of their studies being negative when it came to using only financial incentives to link with employees motivation. Some of these studied argued that monetary incentives cannot be the only way to motivate employees to improve their job performance rather it leads to problematic outcomes especially where these incentives may stop be granted to the employees. However, none of these studies provided a clear picture of what were the effects of these incentives on employee motivation in a more detailed way and if they did motivate employees what had been the improvement on the job performance. The current study was conducted to see the role of these incentives in the financial sector.

The following conceptual framework as summarized guided the current study from the literatures. The proposed model below tried to show the relationship between independent variables and the dependent variable.

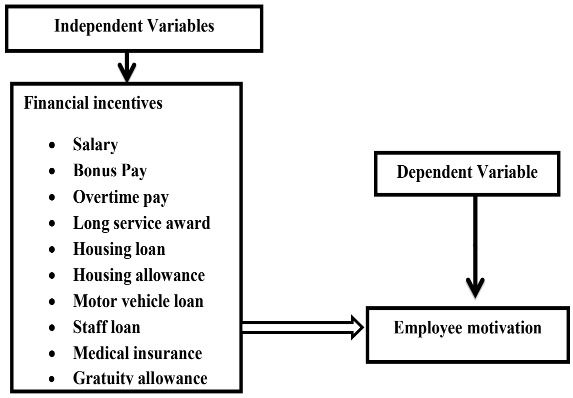

Figure 2: Conceptual Framework of the Study

This conceptual framework was developed by the researcher after studying the factors that were likely to be indicators of motivation from the field of study that is the Bank of Indian. As outlined in the model, there are 10 independent variables which are considered as the indicators of motivation of employees at the Bank of Indian. The model shows a direct relationship between each independent variable and the dependent variable that is employee motivation.

The Impact of Financial Incentives on Motivation:

Does money motivate? Definitely the answer would be "yes" to most of us. Money is the best motivator as said by Frederick Taylor in his theory. Money, or also called as the financial incentive is the strongest influence in motivating employees at work. Money helps employees to survive and thus making it as the main aim for people to work. "Pay is not a motivator." Surprisingly that was the declaration made by Edward Deming. Definitely money buys the things people want, but is not the one that make people motivated to work. There is no support that says paying people more will encourage them to do better work, especially in the long run. Often studies have found that money and performance or motivation only have slight correlations. In other words, higher pay does not produce better performance. This is supported by Turner (2006) that the use of financial incentives did not produce any improvement in employees' performance. Turner (2006) in his study on factory workers found that the relationship between financial incentives and performance was not significant, however when the same study was conducted on service businesses, the finding turned out to be significant and positive. However, extreme focus on financial incentives in public sector could make employees think that money is more important than others, and only work to get money. Manolopoulos in his study focusing on public sector in Greek, comparing extrinsic reward (money) and intrinsic reward (praise) found that extrinsic ones were more motivating than intrinsic rewards. Employees don't think what is important in their work, but what is important to make them work, and money answers all. A research conducted in

1992 where employees were asked to rank the factors that motivate them the most revealed that money was the best motivating factor, contradict with the survey results in 1946, 1980, 1986 and 1992, where money became the fifth important factor to motivate employees.

Non-Financial Incentives on Motivation:

It is very clear that money or financial incentives have a significant impact on employees' motivation. It is a wonder whether non-financial incentives would have the same impact on employees' motivation as the financial incentives. Lord (2002) in his study on motivation of workers found that the main motivators are accomplishment, job responsibility, recognition, etc. and these motivators improve job satisfaction and increase productivity.

This is supported by Mani (2002) who said that good pay and recognition are the strongest motivators compared to benefits, working environment and co-workers, while Lee (1997) who has done a research on motivating factors influencing female entrepreneurs found that achievement, affiliation, autonomy and dominance have a great influence on their motivation. Darling, Arm and Gatlin (1997) said "At one time, money was considered the best employee motivation technique. But today, the use of money as motivation has several strikes against it. The impact of a monetary reward is often short-lived. Non-cash rewards of high intrinsic recognition value – such as merchandise credits or time off – often work better. When given cash incentive, an employee may spend the money on groceries or the electric bill. If merchandise is offered, however, employees will constantly be reminded of the incentive each time they look at the gift. "Even though many researchers have found that money of financial incentive is the most influential motivator in motivating employees, the influence of non-financial incentives cannot be denied. Supporting the above literatures, Mathauer and Imhoff (2006) stated that non-financial incentives such as a more conducive working environment, recognition, appreciation and feedback contributed to workers 'motivation. Other than that, good working relationship with superiors and colleagues are also the determinants of motivation.

Financial and Non-Financial Incentives:

In most situations, organizations use financial incentives as the way to motivate their employees. Just give them money and they are willing to do anything. Most managers believe that money is the most efficient way to make people work, but the question is, how long will the motivation last? Kohn (1993) pointed out that money only produce temporary compliance and is not effective in shaping employees behaviour to last for a longer time. In other words, employees, when given money, will only show positive attitude for a short time. According to him, money or reward will make people seek for more reward in future. In his article "Why incentive plan cannot work", Kohn (1993) stated that "rewards (money) succeed at securing one thing only: temporary compliance. When it comes to producing lasting change in attitudes and behaviour, however, rewards, like punishment, are strikingly ineffective. Once the rewards run out, people revert to their old behaviour." He further expressed that incentives (money) or extrinsic motivator does not change our attitudes, it only changes what we do. Darling, Arm and Gatlin (1997) write "At one time, money was considered the best employee motivation technique. But today, the use of money as motivation has several strikes against it. The impact of a monetary reward is often short-lived. Non-cash rewards of high intrinsic recognition value – such as merchandise credits or time off – often work better.

CONCLUSION:

Most Important Indicators of Motivation Basing on the study findings in this objective, it can be concluded that not all extrinsic motivation rewards appeal to employees there are those employees who are motivated by inner factors like need for recognition, career development and control over people. However, majority employees were concerned about adequacy of salaries to meet their basic needs, adequacy of staff and car loans to foster their personal development and adequacy of house allowance to suit their needs for accommodations. Consequently to a great extent it can be concluded that motivation increased workers morale but in order to be able to comment wholly on impacts of motivation on their performance others further studies should be conducted on the matter. Despite this, a positive relation existed between salaries and motivation because the asymptotic significance was 0.035 lesser than the level of significance at 0.05, this imply that increasing salaries to organizations may help to raise the performance of employees. Most Significant Non-Salary Incentives on Motivation basing on the findings for our study on most significant non-salary incentives the following conclusion was drawn: monetary rewards in the form of non-salary incentives in organizations normally results in employees' job satisfaction and hence minimize labor turnover. Studies conducted in various countries revealed that those organizations which failed to motivate their work forces were confronted with the problem of labor turnover which was caused by low pay packages, inadequate working facilities, lack of objective promotion criteria, lack of recognition etc all of which are components of work motivation.

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