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A Study of Relationship between Financial Rewards and Employees Motivation

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Abstract – Employees lacking motivation can present a problem for all types of organizations, and there can be far-reaching impacts when employee performance is down. The ability to foster a motivating work environment is essential, and strategies must focus on how employee satisfaction and performance levels are tied to motivation. There are several ways that organizations can engage their workforce, and this study allows for an examination of the impacts of financial and non-financial rewards with respect to overall levels of employee motivation. Reward management process covers both financial and non-financial rewards. The concept of the psychological contract is at least as important in understanding and managing motivation as the technical elements of the economics and transactions aspects of reward. Hence, in this paper, we find out the role of incentives in motivating employees and suggest the organizations to make suitable alterations in their rewards system. 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.

Keywords: Employees, Organizations, Performance, Motivation, Workforce, Financial and Non-Financial Rewards, Management, Process, etc.

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INTRODUCTION

This study empirically examines the relationship between rewards and employee's motivation in the non-pro t organizations of India. Employees of three organizations (PERRA, World Vision and SUNGI Development Foundation) working in Khyber Pakhtonkhuwa province of India were taken as sample of the study. Self-designed questionnaire was used for data collection. 125 questionnaires were distributed and 107 were returned, hence the response rate was 85.6%. The data was analyzed using the techniques of rank correlation coefficient and multiple regression analysis. All the findings were tested at 0.01 and 0.05 level of significance. The result concludes that there is a direct relationship between extrinsic rewards and the employee's motivation. However, intrinsic rewards found an insignificant impact on employee motivation.

In today's competitive business environment companies are facing many challenges and among those challenges acquiring right workforce and retaining it, is of utmost importance. Nowadays, human asset is considered to be the most important asset of any organization. In order to get the efficient and effective result from human resource, employee motivation is necessary.

Employee will give their maximum when they have a feeling or trust that the management will reward their efforts. There are many factors that affect employee performance like working conditions, worker and employer relationship, training and development opportunities, job security, and company's overall policies and procedures for rewarding employees, etc. Among all those factors which affect employee performance, motivation that comes with rewards is of utmost importance. Motivation is an accumulation of different processes which in uency and directs our behavior to achieve some specific goal.

This study will examine the employee's motivation of an organization with the rewards (h extrinsic and intrinsic) given to them. For the study, particularly employees of non-pro t organizations of India will be selected, and as a sample employees would be taken from three non-pro t organizations of Abtabad, KPK, India, namely, PERRA, World Vision and SUNGI Development Foundation.

Rewards can be extrinsic or intrinsic, extrinsic rewards are tangible rewards and these rewards are external to the job or task performed by the employee. External rewards can be in terms of salary/pay, incentives, bonuses, promotions, job security, etc. Intrinsic rewards are intangible rewards or psychological rewards like appreciation, meeting the new challenges, positive and caring attitude from employer, and job rotation after attaining the goal. Frey (1997) argues that once pay exceeds a subsistence level, intrinsic factors are stronger motivators, and staff motivation requires intrinsic rewards such as satisfaction at doing a good job and a sense of doing something worthwhile. Desired performance can only be achieved efficiently and effectively, if employee gets a sense of mutual gain of organization as well as of himself, with the attainment of that defined target or goal. An organization must carefully set the reward system to evaluate the employee's performance at all levels and then rewarding them whether visible pay for performance or invisible satisfaction. The concept of performance management has given a reward system which contains; needs and goals alignment between organization and employees, rewarding employees h extrinsically and intrinsically. The system also suggests where training and development is needed by the employee in order to complete the need goals. This training or development need assessment of employee gives them an intrinsic motivation.

REVIEW OF LITERATURE:

Human resource is one of the most important resources of gaining competitive advantage over competitors for a rm. And this resource can be retained and optimally utilized through motivating it using different techniques among which reward is of significance importance. A lot of work has been done on evaluating the relationship between rewards and employee motivation and there exist a large number of studies in the literature describing impact of reward on employee motivation. In order to maximize the performance of the employees organization must make such policies and procedures and formulate such reward system under those policies and procedures which increase employee satisfaction and motivation. Bishop suggested that pay is directly related with productivity and reward system depends upon the size of an organization. Organizations in today's competitive environment want to determine the reasonable balance between employee loyalty and commitment, and performance of the organization.

The existing literature on individuals' innovative performance reveals a wide array of individual and organizational antecedent factors. Among many individual antecedents that in uency employees' innovative performance are attitudes cognitive styles (Scott and Bruce, 2006), personality and demographic characteristics such as age, education background, and prior R&D experience. In terms of organizational antecedents, expenditure on R&D, cooperation with external technology provider, leader's in uence, and reward system are commonly cited as factors that affect individuals' innovative performance. Efficient reward system can be a good motivator but an inefficient reward system can lead to demotivation of the employees. Rizwan Q.D and Ali U.(2010) concludes that h intrinsic and extrinsic rewards motivates the employee resulted in higher productivity.

Most of the organizations have gained the immense progress by fully complying with their business strategy through a well-balanced reward and recognition programs for employee. Perry, (2006) argued that the motivation of employees and their productivity can be enhanced through providing them effective recognition which ultimately results in improved performance of organizations. The entire success of an organization is based on how an organization keeps its employees motivated and in what way they evaluate the performance of employees for job compensation.

Sometimes management pays more attention to extrinsic rewards but intrinsic rewards are equally important in employee motivation. Intangible or psychological rewards like appreciation and recognition plays a vital role in motivating employee and increasing his performance. Markova, G. & Ford C. (2011) concludes that commitment of employees is based on rewards and recognition. Lawler (2003) argued that prosperity and survival of the organizations is determined through how they treat their human resource. the job itself like satisfaction from completing a task successfully, appreciation from the boss, autonomy, etc, while extrinsic rewards are tangible rewards like pay, bonuses, fringe benets, promotions, etc. Markova, G. & Ford C. (2011) examined the relationships between measures of job insecurity, organizational commitment, turnover, absenteeism, and worker performance within a manufacturer. A positive relationship was found between job insecurity and intentions to turnover, and a small negative correlation was found between measures of job insecurity and organizational commitment. Chin –Ju Tsai (2010) discuss about behavior systems approach which can be used to achieve a customer centered organization through examples and reports from consultation cases. Johnson et al (2010) establish the effects of presenting organizational information through implicit and explicit rules on sales- related target behaviors in a retail setting. Results indicated that when organizational information was presented in a specific form, productivity was increased and maintained longer than when presented in other forms.

As this study examines the impact of extrinsic and intrinsic rewards on employee motivation, the employees of the non-pro t organizations working in KPK has been taken as population. Employee motivation is taken as dependent variable and extrinsic and intrinsic rewards are taken as independent variable. The framework of the study is given in Figure 1, 2 and 3 respectively.

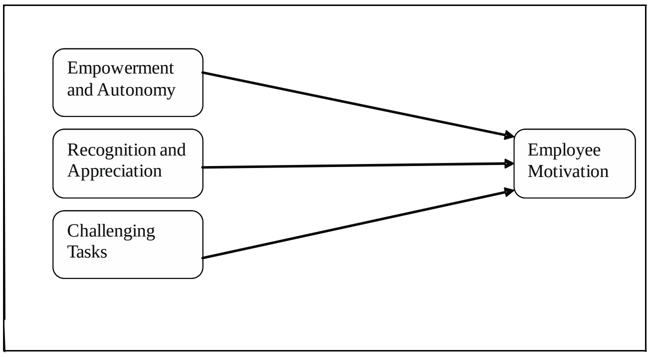

Figure 1: Intrinsic Rewards and Employee´s Motivation

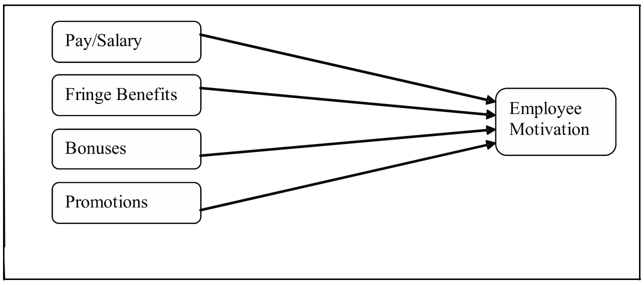

Figure 2: Extrinsic Rewards and Employee's Motivation

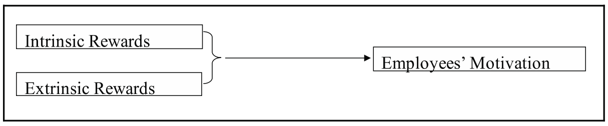

Figure 3: Research Framework

According to Ali, R., & Ahmed, M. S. (2009), creative workers have two main reasons for being intrinsically motivated. And these reasons must be addressed by organizations for better performance. First reason, intrinsic motivation is needed for creating and exchanging the knowledge and ideas. They found that, motivated employees are inherently interested towards engagement with their work. Also, these employees will share more information with colleagues, and by this fact, they generate or create more knowledge throughout the organization. Second, intrinsic motivation is to enhance the time, which is owed to job-related tasks and to improve the productivity level of individuals in the organization. By giving this knowledge, employees have relative carefulness about the time for these productive activities, their willingness to devote the time for these productive activities, is crucial for the success of organizations.

Zingheim, P., & Schuster, J. (2007) state that incentives based on groups or teams could raise the knowledge creation, transfer of knowledge and knowledge acquisition. Strumpel (1975), states that, the employees with stable positions in the organization, prefer the non-material aspects of the job. Mathios (1988) urges that non- monetary rewards are preferred by highly educated people.

Stander, M., &Rothmann, S. (2008) suggested the gain sharing approach to discuss the impact of rewards on employee motivation and engagement towards the organization. Through gain sharing approach, organizational effectiveness can be enhanced to great levels. Through gain sharing approach financial bonuses can enhance the productivity of employees and employees should be rewarded with financial incentives for extra efforts. This approach mainly focuses to decrease the costs for a portion of that reduction should be converted into bonuses to employees to motivate them. On the other hand, profit sharing is different from daily basis productivity gain. Profit sharing bonuses are annually paid bonuses and most of the employees often believe, managers will forget their promises and would not pay these bonuses.

According to Rynes, S., Gerhart, B., &Minette, K. (2004) despite having lots of evidence of the motivational impact of intrinsic rewards on employee job performance, many managers still count money as the main motivational tool for employees and focus on money. Furthermore, VanZyl (2000), concluded that a bonus or 13th check is a great consideration among employees and even it could remain as a great motivation for employees to be engaged with their jobs and remain with the firm. He argued that money is always a great motivational tool from the start of the job in any field.

Nienaber, R. (2009) credited more output in non-monetary gift as compared to monetary gifts. Non-monetary gifts contribute a great deal to employee satisfaction and this satisfaction shows long-term results. Kube et al. (2008) also carries the social exchange phenomenon. In his study, results show the higher impact of non- monetary incentives on social exchange theory compared to monetary rewards.

In another study Scott, (2006) describe that monetary rewards are beneficial in short-term period and ineffective for long-term period. He also states that non-monetary rewards have a significant and consistent effect on their satisfaction.

Saks (2006) conducted a study to examine the employee engagement role in service sector employees in eight different European countries. They focused on four economic sectors, retail trade, finance & banking, telecoms, and public hospitals.

They observed country wise differences in the matter of employee engagement. The engagement of employees is based on job demands and job resources, for example job autonomy and social support. Social support includes different types of motivational factors like job enrichments, job empowerment and monetary and non-monetary rewards. They also proposed that engagement of employees towards organization can be achieved by implementing and creating a socially supportive environment. Whereas the job demand negatively relates to the work engagement. They represent the work engagement as the outcome of job demand and job resources.

Performance Evaluation of the Scheme of Workers' Participation in Management: The number of public sector units implementing or initiating the action of implementation of the Joint Councils increased from 472 in 1976 to 545 in 1978. The Government of India appointed a Committee on workers’ participation in management and equity in September 1977, to study all the issues relating to participative management. The committee after its in-depth study suggested the outline of a comprehensive scheme and came to conclusions on matters likes the nature, structure, levels of participation and their functions, which may form part of a scheme of participative management.

Though this theme was lauded with great fanfare, it has not been effective in its working owing to the same malady from which the Joint Management Councils have been suffering, i.e. absence of commitment of h employer and employees. Further, employees feel that this scheme is mostly oriented to maximization of production/productivity, optimum utilisation of capacity, better utilisation of raw materials etc. without concerning itself much with the men of the unit/plant.

During the 1950s the discourse on WPM was done between unions and the state but the WCs were not fully geared to workers’ participation. The Industrial Policy Resolution of 1956 had stressed the need for labour being a partner in development. It also recommends that labour should participate in the process and management and workers to deal with managerial problems should hold joint consultation. The directive principles of state policy as enshrined in the constitution of India in its article 43A also made provision as under:

“The State shall take steps, by suitable legislation or in any other way, to secure the participation of workers in the management of undertakings, establishments or other organizations engaged in any industry”

During emergency Indira Gandhi in her 20 point programme also took up the issue of workers participation in management as one of the points.

The Ministry of Labour and Employment held consultation with social partners on the Participation of Workers in Management Bill, 1990 in the Parliament. A Tripartite Committee meeting was organised by the Ministry in order to know the views of the social partners on this issue, in view of new social and economic parameters that were taking place since 1990.

Participation of workers in management emerged as a need, after which the bill came into existence in 1990. This bill has since been pending for over two decades in RajyaSabha. The Bill is to be applicable to all units covered under the Industrial Disputes (ID) Act, 1947. The salient features of the Participation of Workers in Management Bill are:

The Bill is applicable to all units covered under the ID Act, 1947 and the definition of Appropriate Government prevailing in the ID Act is to be made applicable. The Central Government is responsible for enforcing the law, in all cases where the Central Government is the appropriate government under the ID Act, 1947, also in enterprises where the Central Government holds 51% or more of the paid up share. In the remaining cases, the responsibility for enforcement will be that of the State Government.

The Bill provides for formulation of one or more schemes to be framed by the Central Government for giving effect to the provisions of the law which includes, among others, the manner of representation of workmen at all three levels and of other workers at the Board level, nomination of representatives of employers on the shop floor and establishment level councils, procedure to be followed in the discharge of the functions of the Councils etc.

The Participation of Workers in Management Bill, 1990 was introduced in the RajyaSabha on May 30, 1990 to provide a specific and meaningful participation of workers in management at the shop floor, establishment and board of management level in the industrial establishments. The Bill was referred to Parliamentary Standing Committee on Labour and Welfare to the LokSabha on 12thJuly 1994, which submitted its report on December 18, 2001. The Parliamentary Standing Committee that met in April 2005 said that, the Participation of Workers in Management Bill, 1990 needs to be pursued.

The Impact of Financial Rewards on Employee Motivation is Larger Salary, Bonuses and Allowances Are the Significant Elements of Financial Reward: The importance of a motivated workforce cannot be underestimated in boosting the organizational performance. Besides the financial rewards, the employee expects recognition and appreciation for his efforts and contribution. On the basis of the findings, researchers suggest that money is ranked top as an influential factor in creating employee motivation because it satisfies the basic necessities along with attainment of power and fulfills belongingness needs. Though it contributes a lot in motivating the employees, but at the same time the non-financial rewards are equally important in enhancing the employee motivation. The impact of non-financial rewards is instrumental in improving the employee morale. Employees expect recognition and encouragement for their services because nobody likes to be unappreciated for the efforts he or she made. Some of the organizations offer h financial and non-financial rewards to the employee in order to motivate their competent workforce. That's why the motivated employee is less likely to leave the organization. In this study, the company Astro packaging films is offering the employees a competitive package along with the non-financial rewards. But according to the findings the employees are dissatisfied in terms of the health insurance coverage because it didn't cover the medicine expense. So, the organization needs to focus on h of the financial and non-financial rewards in order to motivate and retain their employees.

Financial rewards like salary, bonuses and fringe benefits are instrumental in fulfilling the basic necessities of life and needs of belongings and authority. It is a symbol of triumph and accomplishment. Employees expect salary accordance to their skills, abilities and qualification. An inequitable pay is a source of appreciating the employees for their services and efforts. Nobody likes to be unappreciated; all the employees expect a salary that is up to their qualification and experience. 39% strongly agree and 41% agree with the statement, "I am happy with my current salary level. It is in accordance with my knowledge, skills, abilities, education and experience".

Highly motivated employees are a critical factor in the long term success of many organizations. Given this, HR Accountants are becoming increasingly interested in how elements of control systems affect employee motivation at all organizational levels. Employee empowerment has been advocated by management and accounting researchers as a way to increase employee motivation. For example, the balanced scorecard concept, advocated by many management accountants, emphasizes the importance of empowering employees to increase their motivation, learning and growth. Similarly, management studies have shown employees who feel empowered have higher levels of task motivation, which in turn, has been linked to greater organizational effectiveness and performance. Although there is a presumed link between empowerment and motivation, little amount of research has examined this relationship on how various aspects of a firm's control system affect employee empowerment, motivation and performance.

Motivated employees play a significant task in organizational achievement, and precedent research points to an optimistic association between acuity of empowerment and motivation. A well-known model put forth by Spreitzer (2006) proposes that two major workings of control systems will certainly affect employee feelings of empowerment- performance feedback and performance based reward systems. This investigational study contributes to the behavioural accounting literature studied on the performance of Bangladeshi front line managers by providing how specific types of performance feedback and performance based rewards have an effect on three psychological dimensions of empowerment. Also, a comparatively simple context has been used to examine whether calculations validated on surveys of managers also hold for lower level workers. The results propose that feedback and rewards affect the scope of empowerment in a different way for lower level managers in different industrial sectors of Bangladesh than they do for top-level managers. In addition, in general, motivation was not considerably associated with two of the three-empowerment scopes. Implications of this study are that methods that work to boost manager perceptions of empowerment may not work at lower organizational levels in Bangladesh, and even if victorious, the related add to in employee motivation may not be momentous.

CONCLUSION:

Normally in the public service, the extrinsic factors are lowly exposed compared to other sectors including private companies/ institutions. Bank of Indian was revealed by this study to expose its employees to extrinsic rewards and was able to retain them even for longer time period of up to 15 years. This made employees of Bank of Indian to feel that compensation packages were really working which facilitated their increase of input to job/ tasks; they changed their attitude and performed better. The Indian government should redesign organization strategies for each public office and make jobs more interesting and challenging and ensuring the availability of the primary motivational factors identified by this thesis as well as ensure they address intrinsic motivation of their employees. It should be noted that it is not only important for satisfying workers' needs but also it is very necessary to maintain productivity and ensuring the long term survival of the public organizations.

There should be mutual balance between motivation through monetary rewards and other incentives with performance, organizations should stop motivating workers using financial incentives if they see that performance or their productivities are very low. Also these managers should be time conscious if effective work productivity is to be enhanced from the employees. Human resource managers should be well informed that work motivation, leadership effectiveness and time management as required for any organization to succeed.

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