IMPACT OF FINANCIAL AND NONFINANCIAL REWARDS ON EMPLOYEE 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.

Key Words: Incentives / Rewards, Motivation, Satisfaction, Performance

1.0 Introduction:

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.

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 organisation is to attract and retain the human resources the organisation 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 organisation is aiming to bring about an alignment of organizational and individual objectives when the spotlight is on reward management.

1.1 Incentives/Rewards:

“Incentive” may be defined as a stimulus or encouragement for greater action. When used in terms of wage policies, it usually refers to additional remuneration paid to an employee, if the work units produced by him exceed an established standard. Incentives are offered to employees to encourage them to greater effort in production than would normally be expected.

Varma and Agarwal (1994) defined; rewards are the payments made to the employees as compensation for the services rendered by them to the organisation. Compensation or remuneration is what employees receive in exchange for their work in the enterprise, and Criffeth, Hom (2001) defined that compensation is the benefits made to employees by employer for attracting and retaining personnel in the organisation. Thus the concept of incentives / rewards implies increased willingness or motivation to work.

Reward strategy is the deliberate utilization of the pay system as an essential integrating mechanism through which the efforts of various sub units and individuals are directed towards the achievement of an organisation strategic objective, subject to internal or external constraints.
Contemporary compensation administration frequently embraces a strategic approach where the mix and level of direct pay and benefits are chosen to reinforce the organisation’s overall strategic objectives (Gomez-mejia, 1992). Integration among four basis policy decisions is required in the design of a consistent compensation system (Milkovich and Newman, 1993). These decisions involve:

1. the comparison of jobs within an organisation (Internal equity/internal consistency).
2. setting pay levels relative to competitors (External equity/External competitiveness).
3. adjusting pay for individual employees (pay for performance, rewards systems, skill based pay design).
4. the administration of the compensation function (benefits administration, and benefits communication)

1.2 Types of rewards:
It is generally recognized that people may receive two major categories of rewards from work. One is intrinsic rewards, which are rewards that are internal to workers and which they give themselves. Intrinsic rewards include self-esteem, a sense of accomplishment, and a feeling of growth or development of special skills and talents. Many of these rewards are desired from the work itself. Intrinsic rewards are related to the worker’s perception of the job and, hence, are affected by job design, intrinsic rewards may be called as “non-financial/non-monetary rewards.
A second category is extrinsic rewards, which are external to workers and are given by the organisation or someone else. Extrinsic rewards include direct and indirect compensation. Direct incentives are those rewards which are directly involved with the money as wages and salaries, bonus, commission, individual and group incentives, profit sharing and stock options. Indirect incentives are those rewards which are related to employees’ benefits or perquisites. It consists of protection programmes, paid time off, health insurance plans, child care benefits and employee discounts (Henderson, 1994).
Extrinsic rewards may be called as monetary or financial rewards. Being an extrinsic reward, compensation is more easily controlled by managers than are intrinsic rewards. Intrinsic rewards satisfy hierarchical needs of higher level such as social, esteem and self actualization needs, and
are real motivators or satisfiers where as extrinsic rewards satisfy lower level needs (Maslow 1951).

1.3 Objectives of Reward System:
The study of different patterns of rewards/wage payment is important both from the academic as well as practical points of view. Wages are among the major factors in the economic and social life of any community. In an economic sense, wages represent payment of compensation in return for work done. In a sociological sense, wages characterize stratification of occupational categories. In a psychological sense, wages satisfy needs directly and indirectly in response to changing employee aspirations. It constitutes one of several elements of job satisfaction and is instrumental for the satisfaction of some needs more than others. In a legal sense, the term wages/salaries has acquired various connotations, depending on the context and has become a subject of special law in many countries. It is most important to an industrial worker because his standard of living and that of his family depends upon his earnings.

Rewards support new developments which help in the introduction and effective use of sophisticated management techniques. For example JIT (Just-in-time), FMS (flexible manufacturing system), cellular manufacturing, CIM (computer integrated manufacturing) and other applications of information technology such as integrated in business system and point-of-event, date capture systems. Further, it helps to achieve continuous improvement in levels of quality and customer service by supporting such processes as TQM (total quality management).

In order to achieve the business goals and the desired work culture, organisations provide employees a range fixed and variable compensation, which include fixed cash, short term incentives and long term incentives, recognition programmes and the work environments. Guaranteed pay to the employees is essentially a fixed cost to the business, while pay that is variable and depends on the individual and group performance is essentially related to the business results. This movement in the mix of pay signifies a shift from viewing employee as a cog in the cost will to viewing the employees as a group of people who have come together to achieve some common goals.

1.4 Rewards and motivation:
Motivation is the economical stimulus that causes us to act. The stimulus may be a need or a drive that energizes certain behaviours. At work, motivation is a combination of all factors in our working environment that lead to positive or negative efforts. If we understand what motivates us, we are more likely to achieve our personal and professional goals. Likewise, if organizations know how to motivate employees, they can increase productivity. This ability to boost production is increasingly important as organizations compete in the global market. While all companies make some efforts to motivate employees, a growing number of organizations are introducing new strategies including different compensation packages, as a means of motivating today’s workers (Dalton, Hoyle and Watts, 2003). Thus rewards and motivation are interrelated. Money as a major motivating factor was endorsed by Taylor (1947), the founder of scientific management. People were seen to be motivated by self-interest and were keen to accept the challenge to maximize their income. The “economic man” school of thought gave way to the human relations perspective expounded by Mayo (1949). Following a series of experiments on the social and environmental conditions at work, the importance of recognition and good social relationship at work as motivational factors contributing to morale and productivity was heavily underlined.

Herzberg claimed that money is a so called “hygiene factor” which serves as a potential dissatisfied if not present in appropriate amounts, but not as a potential satisfier or positive motivation. Lawler and Porter (1967) suggested that performance increases satisfactions through the intermediate effect of rewards. In order to motivate employees for better organizational performance, it would be necessary to provide incentives and situational factors in such a way that their personal needs are integrated with organizational goals. The strength of motivation varies depending on the variables such as motive, expectancy and incentives which can be shown in the following equation (Atkinson, 1958).

\[ \text{Motivation} = f (\text{motive} \times \text{expectancy} \times \text{incentives}) \]

From the above equation, the values of expectancy and incentives are normally based on the past experience of the individual concerned. The subjective assessment of these factors is therefore, more important in determining motivation of a person than the values that may be assigned to these factors through objective measurements.
Equity theory (Adams) revealed that satisfaction with pay is related to perceptions about the ratio between what one receives from the job (outcomes in the form of pay) to what one puts into it (inputs in the form of efforts and skill) compounded with the ratios obtained by others. Argyris (1957) and McGregor (1960) indicated that a man is striving for self actualization through work. The emphasis shifted from extrinsic rewards through accomplishment, use of creativity and other potentialities at work. Behaviourist theories of motivation are characterized as more properly a concern with psychological incentives managements in its current socio-historic institutionalized form as a process of social domination and work as a social experience of domination (Jackson, Vincent, 1986). But monetary incentives increase employee productivity and directly rational to the achievements of the productivity objectives of organizations (DehigamaNayana 1996). Thus financial and non-financial motivation process has an equally important part to play in reward management.

1.5 Objectives of the study:
The prime objective is to examine the relationship between the rewards and employee motivation in private sector organisations.
The specific objectives of the study are:

i) To assess the degree of rewards prevailing amongst the employees of private sector organizations.
ii) To analyze the application of rewards system in motivating employees of private sector organizations.
iii) To suggest the organizations to make suitable alterations or take corrective actions in their rewards system.

1.6 Data Collection and sampling design:
Primary data was collected through the questionnaire and secondary data from journals and book, etc. Random sampling technique was adopted to select sample organisations. Thus 30 private sector organizations, located in Colombo City were selected for the purpose of the study.
Rewards and motivation in the present study were measured by a questionnaire which consists of 15 statements for rewards, and 20 statements for motivation. These statements were to be
responded to on a seven point scale ranging from “strongly agree” to “strongly disagree”. The number of questionnaires issued to different organisations was 600 and only 316 (53%) were received in the condition of usage.

1.7 Hypothesis of the study:
The following hypothesis has been taken for the study.
1. There is no relationship between rewards and employee motivation in private sector organizations.
2. There is no relationship between monetary rewards and lower level needs.
3. A relationship can be observed between non-monetary rewards and high level needs.
4. Significant difference can be noticed between monetary rewards and non-monetary rewards.

1.8 Process of data:
A questionnaire was used to assess the level of rewards, and motivation perceived by the employees in private sector. The questionnaire consists of 15 statements for rewards and 20 for motivation and the responses were measured on seven point scales ranging from “strongly agree” to “strongly disagree”. The total score for rewards was divided into three categories as 15-45-low, 45-75-average and 75-105 high, likewise 20-60 low, 60-100 average and 100 – 140 high in respect of motivation. Thus the levels of rewards and motivation perceived by the employees in private sector are given below.

Table 1
Levels of rewards and motivation perceived by the employees in private sector

<table>
<thead>
<tr>
<th>Levels of rewards and motivation</th>
<th>Low</th>
<th>Average</th>
<th>High</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rewards</td>
<td>38</td>
<td>109</td>
<td>169</td>
<td>316</td>
</tr>
<tr>
<td></td>
<td>(12.0)</td>
<td>(34.5)</td>
<td>(53.5)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Motivation</td>
<td>40</td>
<td>45</td>
<td>231</td>
<td>316</td>
</tr>
<tr>
<td></td>
<td>(12.7)</td>
<td>(14.2)</td>
<td>(73.1)</td>
<td>(100.0)</td>
</tr>
</tbody>
</table>
The above table shows the level of rewards and the level of motivation of the employees in private sector. Most of the employees come under the high level of rewards constituting 53.5% and high level of motivation with 73.1%. Only 12% and 12.7% of the employees are in lower level rewards component and motivation respectively.

1.9 Financial and non-financial rewards:
Total rewards are divided into two classes namely, monetary rewards and nonmonetary rewards. These two types of rewards/incentives have an equally important role in motivating employees. Reward strategies should, therefore, ensure that both are sued effectively as part of an integrated total reward process. Role of these types of incentives may depend on the perception. Hence the levels of rewards are presented under two heads of monetary, and non-monetary rewards.

Table 2

Level of monetary and non-monetary rewards perceived by the employees in private sector

<table>
<thead>
<tr>
<th>Types of rewards</th>
<th>Low</th>
<th>Average</th>
<th>High</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetary Rewards</td>
<td>37</td>
<td>120</td>
<td>159</td>
<td>316</td>
</tr>
<tr>
<td></td>
<td>(11.7)</td>
<td>(38.0)</td>
<td>(50.3)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Non-Monetary Rewards</td>
<td>56</td>
<td>80</td>
<td>180</td>
<td>316</td>
</tr>
<tr>
<td></td>
<td>(17.7)</td>
<td>(25.3)</td>
<td>(57.0)</td>
<td>(100.0)</td>
</tr>
</tbody>
</table>

From the above table, the level of monetary and non-monetary rewards is found high among high level with 50.3% and 57%, and least number of employees fall under the lower level constituting 11.7% and 17.7% in respect of both two type of rewards. Then, the significant difference between the mean score of monetary and nonmonetary rewards was analysed with the Z-test.

Table 3

Z-test for financial and non-financial rewards on the perception of employees in private sector

<table>
<thead>
<tr>
<th>Variables</th>
<th>No. of sample</th>
<th>Mean</th>
<th>S.D.</th>
<th>Z-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Rewards</td>
<td>316</td>
<td>47.66</td>
<td>12.69</td>
<td>27.74</td>
</tr>
</tbody>
</table>
The table shows the Zo value of 27.74 which is significant at 0.05 level. Hence there is a significant difference between financial and non-financial rewards on the perception of employees. It reveals that the employees in private sector gave much importance to financial rewards than non-financial rewards.

The difference between financial and non financial reward may vary with the employee status which mean, lower level, middle level and high level. Here lower level and middle level employees give much importance to financial rewards where as high level executives emphasis non-financial rewards. It reveals that nearly 83% of the employees try to meet their financial rewards and rest 17% meet non-financial rewards. Following the above analysis, the factors of rewards and employees motivation had been identified. A list of some what items has prepared and asked the employees to rank order them in terms of their availability and importance to workers. Their rankings are given below. 1 indicates the highest rank and 9 the lower rank.

Table 4
The factors ranked by the employees in private sector

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Rewarding factors</th>
<th>Motivational factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Retirement benefits</td>
<td>Good interpersonal relationships</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Good interpersonal relationships</td>
</tr>
<tr>
<td>2</td>
<td>Salary increment and bonus</td>
<td>Freedom of work</td>
</tr>
<tr>
<td>3</td>
<td>Medical facilities</td>
<td>Sufficient salaries and fringe benefits</td>
</tr>
<tr>
<td>4</td>
<td>Prospect for promotion</td>
<td>Social relationship</td>
</tr>
<tr>
<td>5</td>
<td>Appreciation and participation in decision making</td>
<td>Safety in work</td>
</tr>
<tr>
<td>6</td>
<td>Merit pay and sales incentives</td>
<td>Congenial working condition</td>
</tr>
<tr>
<td>7</td>
<td>Recognition awards</td>
<td>Feasible rules and regulations</td>
</tr>
</tbody>
</table>
The private sector employees ranked retirement benefits and salary and bonus as 1 and 2 indicating that these are the most important variables of rewards in the minds of workers. While the good interpersonal relationships and freedom of work as the most significant variables of motivation. Stock options and accommodation and child care benefits are considered as the least important in respect of rewards. Likewise, less hour of work, and job involvement are considered as the least important in motivation. Therefore, an organisation can inspire the employees to achieve the goals by paying attention to these factors.

1.10 Rewards and motivation:
People can be motivated by rewards and incentives which will enable them to satisfy their needs or will provide them with goals to attain. In order to test this validity, the relationship between rewards and motivation is found with the following table.

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>Average</th>
<th>High</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>36</td>
<td>04</td>
<td>-</td>
<td>40</td>
</tr>
<tr>
<td>Average</td>
<td>02</td>
<td>32</td>
<td>11</td>
<td>45</td>
</tr>
<tr>
<td>High</td>
<td>-</td>
<td>73</td>
<td>158</td>
<td>231</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>109</td>
<td>169</td>
<td>316</td>
</tr>
</tbody>
</table>

X - Level of motivation
Y - Level of rewards.

From the above table, Bi-variate correlation was computed to find out the relationships between rewards and motivation. Correlation value, \( r = 0.745 \) in private sector and it shows that there is a close relationships between rewards and motivation.

Hence, the main objective and hypothesis is accepted.
The study of motivation is based on Maslow’s hierarchy needs theory. Needs can be divided into two groups, such as lower level needs, and higher level needs. Here, lower level needs are satisfied by financial rewards and higher level needs are satisfied by nonfinancial rewards. In order to discover the association between monetary rewards and lower level needs the following table has been presented.

**Table 6**
Monetary rewards and lower level needs in private sector

<table>
<thead>
<tr>
<th></th>
<th>Physiological needs</th>
<th>Safety needs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation</td>
<td>4-20</td>
<td>20&gt;</td>
<td>4-20</td>
</tr>
<tr>
<td>5-20</td>
<td>15</td>
<td>07</td>
<td>14</td>
</tr>
<tr>
<td>20&gt;</td>
<td>12</td>
<td>45</td>
<td>07</td>
</tr>
<tr>
<td>Indirect</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation</td>
<td>5-20</td>
<td>05</td>
<td>15</td>
</tr>
<tr>
<td>20&gt;</td>
<td>14</td>
<td>47</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>104</td>
<td>48</td>
</tr>
</tbody>
</table>

X - Monetary rewards
Y - Lower level needs

From the table 6, $X^2$ technique was used to test the association between monetary rewards and lower level needs. $X^2 = 74.33$ which is significant at 0.05 level. Hence, there is very close association between monetary rewards and lower level needs in private Sector.

Following the testing of association between monetary rewards and lower level needs, the association between non-monetary rewards and higher level needs is analysed.

**Table 7**
Non-monetary rewards and high level needs in private sector

<table>
<thead>
<tr>
<th></th>
<th>Social needs</th>
<th>Esteem needs</th>
<th>Self Actualization needs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-</td>
<td>4-20</td>
<td>20&gt;</td>
<td>4-20</td>
<td>20&gt;</td>
</tr>
</tbody>
</table>
Table 7 shows the $X^2$ value of 89.68 which is significant at 0.05 level. It indicates that there is very close association between non-monetary rewards and high level needs in private sector.

### 1.11 Suggestions:

Based on the study, the following suggestions are made to the organizations. An organization should identify the most important factors which is perceived by the employees, then should concerned with these factors and the organizations should provide a reasonable and maximum salaries/wages to the workers, because wages and salaries are the most significant factor in motivating employees.

The employees should be given higher responsibility for the operations of the tasks assigned to them. This would enhance the employees motivation.

The organizations should perceive the type of needs in hierarchy preferred by the workers and then should be adopted appropriate rewards system. For example, monetary rewards may be applicable to lower level employees, whereas non-monetary rewards applicable to high level executives.

Since, employees should also be accountable to their performance which increases their sense of awareness and involvement in their job, it is better to provide the performance related pay which will lead to motivate them, for this purpose, the management must periodically review their level of performance and they should be identified and recognized on the basis of their performance, then they should be awarded with monetary benefits. Some organizations adopt this system.

Finally an appropriate training programme or competition programme with relevant incentives may be organized with the resource persons.

### 1.12 Conclusion:
From the results obtained from the study, it is apparent that, the perceived level of rewards and motivation have significant relationship among the private sector employees and the monetary rewards have a significant effect on employee motivation than the nonmonetary rewards.

References: