IMPACT OF FINANCIAL AND NON-FINANCIAL INCENTIVES ON EMPLOYEE PRODUCTIVITY

Ms. Gagan Bhandari
Asst. Professor
Department of Commerce and Management, Guru Nanak Girls College
Yamuna Nagar, Haryana
Email ID: gaganbhandari0027@gmail.com

ABSTRACT

The aim of this research is to ascertain the relationship between monetary incentives and its impact on employee performance. The main objective of the study was to find out level of motivational incentives and to analyze the impact of those incentives on the performance of employees. Incentive pay is a form of compensation given to employees upon attainment of some form of job performance (Armstrong,2009). Different incentives affect performance and job satisfaction of employees. In the study, the effects of recognition, participation, feedback, monetary incentives, non-monetary tangible incentives and benefits on performance and job satisfaction are researched. Management should continue to give their employees financial incentives and continue to allow their employees enjoy non financial incentives in order to increase and sustain their efficiency, make them be willing to increase the speed at which they work, and for them to continue to do their work with no errors.

Keywords- incentives, compensation, performance, satisfaction, sustain, efficiency

Introduction-

Employees are forced to spend more time in office-certainly exceeding the typical 40 hour work per week; but, exceeding the office hours does not mean increasing their efficiency. Instead, firms should make an effort to increase the efficiency of the employees, which lead to individual growth and development of firm. The general believed is that employees will not perform to the best of their ability unless they are motivated to do so. Various researchers have come up with various ways to motivate people at work. However, because human beings are different from one another in terms of needs, culture, religion etc. so does what motivate them also varies. Some employees are motivated by financial and other incentives and some non-financial incentives.

Recent studies have shown that a combination of financial and non-financial incentives can motivates employee to perform well on their job. Financial incentives include base pay, profit sharing, gain sharing, benefits, initiative rewards and special rewards. Except for benefits and special rewards financial incentives are typically paid as money. A financial incentive will motivate employee performance and employee engagement in a direct, immediate way. On top of these everyday incentives, employees may be given long term incentives to look forward to, including mid-year and end-of-year bonuses. A financial incentive will help show your employees that you value them and the good work they produce for your company.

Objectives-

1. To identify various financial and non-financial incentives used by companies to improve the productivity of employees.

2. To identify the relationship between incentives and employee productivity.

3. To provide suggestions to make incentive system more effective.

Research methodology-

The study is of qualitative nature and tells about various financial and non-financial incentives used by companies to improve the productivity of employees, relationship between incentives and productivity and also recommends the suitable measures to make the incentive system more effective. This study basically makes use of secondary sources of data, hence all the relevant and required data have been collected from various papers, websites, journals.

Types of Financial Incentives-

Financial incentives are types of remuneration linked to monetary incentives or need monetary payment. This type of incentive can come in a variety of shapes and sizes. The most prevalent financial incentives are listed below.

1. **Salary and allowances-**

Every employee's primary incentive to work efficiently for a business is their salary. Basic pay, dearness allowance, house rent allowance, and other comparable benefits are part of the salary.

Employees receive annual raises in basic pay and periodic increases in their allowances under the salary system. These raises are sometimes dependent on the employee's performance during the year.

2. **Pay for performance -**

This is the most common form of financial incentive, and most businesses are aware of this type of incentive. This is sometimes also known as "pure financial incentive." It refers to a pay structure in which employees are paid based on their ability to meet performance goals. It's a simple device that taps into a primary human reaction, i.e., once someone gets paid to do something, they are more inclined to do it. This is also very cost-effective.

3. **Profit-sharing -**

Profit-sharing refers to a sort of financial incentive in which employees are paid out of a percentage of the company's pre-tax income. Under this, employees typically receive a share of the company's profits in addition to their regular pay.

This indicates that a company or workplace will give profit-sharing payments only based on the company's earnings or other considerations such as excellent customer service.

4. **Stock Options-**

Many companies use employee stock options plans to compensate, retain, and attract employees. These plans are contracts between a company and its employees that give employees the right to buy a specific number of the company's shares at a fixed price within a certain period of time. Employees who are granted stock options hope to profit by exercising their options at a higher price than when they were granted. In India, stock options have primarily been used as a retention tool for a more selective group of employees.

6. **Retirement Benefits-**

It includes the accumulated provident fund, gratuity, leave encashment and pension. The provision of terminal benefits provides assurance to employees during the service for their future.

Non-Financial Incentives-

Financial incentives sometimes may not be enough or adequate to motivate the workers. Managers can combine financial incentives with other incentives to increase employees' productivity.

In addition to meeting monetary and future security demands, an employee has psychological, social, and emotional needs that need to be satisfied. Fulfilling these social, economic, and psychological requirements is vital for their motivation.

Furthermore, there is a possibility that a non-financial incentive will also include a financial incentive. For example, when employees get a promotion in their job, this increases their salary or bonus and fulfils their psychological demands because they gain more authority and their position also rises in the organisation.

Types of Non-Financial Incentives -

Using techniques other than money, a company can stimulate good behavioural change and encourage employees to work more efficiently. Some of the most common forms of non-financial incentives have been discussed below.

1. **Recognition -**

Recognition is an expression of gratitude for a level of performance, an accomplishment, or a contribution to a goal. It might be private or public, informal or formal. Employee appreciation is one of the most effective ways to empower employees.

It makes them feel valued, which increases employee recruitment and retention. When done right, recognition is a cost-effective approach to boost performance and make employees feel more invested in the company's work.

2. **Career advancement opportunities-**

The lack of job growth options has an impact on motivation and achievement. Suppose employees are provided with the opportunity to progress their careers by adopting new skills, technology, and competencies required to improve performance and promotion. In that case, they will feel appreciated and encouraged.

Employees' productivity will also increase since they will be reminded regularly that their efforts will help them achieve their goals and increase their prospects of growth.

3. **Organisation's work environment -**

Individual performance increases due to a better working environment because a better working environment increases employee happiness, which leads to increased performance. A person is motivated by a work environment where they feel they have incentives to accomplish work and are given importance for doing their job.

Productivity declines in working environments if workers lack enough resources, software, sufficient ventilation, comfortable furniture, or lighting, making employees uncomfortable and impairing productivity.

4. **Empowerment-**

To stimulate an employee is his involvement in certain crucial decisions. For example, if the management decides to buy a new machinery for the factory, the workers' viewpoints may be secured before making the final decision. The management should avoid unilateral decisions on such matters

5. **Job Rotation-**

By job rotation we mean that the employees will be exposed to different kinds of job. This certainly would break the monotony of employees. For example, in a bank an employee may work in the Savings Bank Section for sometime after which he may be posted to the cash section. Such a change not only motivates the employees to perform well but also prepares him to be versatile.

6. **Lead by Example — be passionate and energetic-**

Leaders should demonstrate the attitudes, values, actions, and mindsets that they want among their staff. Leaders are always considered as role models.

7. Treat your people as human beings – neither inferior, nor superior-

Show trust and respect, motivate them for creativity, create a 'safe-to-risk environment', keep them informed of relevant developments inside the organisation, mistakes be treated as learning tools instead of blaming them, act as an advocate for their employees and be a visible champion for them, provide resources and support required by staff to complete their jobs, promote and provide two-way feedback, address stress and burnout, and implement work/life balance initiatives.

Theoretical Reflection -

Two micro theories support the conceptual framework of our study. These motivational theories explain why incentives influence employee loyalty, leading toward employee performance. The first motivational theory is "**Maslow's hierarchy of need**," which classifies human needs into two types. First, lower order needs, which are physiological and connected to safety and security, and second, higher order needs, which include socialization, self-esteem, and self-actualization. In this theory, incentives and this type of recognition are given to employees, and are related to the self-esteem of employees. These create motivation among them to work hard within the organization.

The second motivational theory is by **Herzberg**, who explains two types of factors i.e., motivational factors and hygiene factors. Employees would like to grow in an organization and if there are chances for growth, advancements, and recognition they feel motivated to work but hygiene factors like working environment, quality of interpersonal relation, and salary are also important along with the motivational factor . Without any one of them, an employee will start to feel dissatisfied with their job, which will impact their behavior toward work and can also lead to high turnover among employees .

Another important theory that is highly relevant to our study is "**Vroom expectancy theory**." This theory suggests that behavior will develop certain attitudes among employees, which will lead to further actions. This theory outlines that job performance is based on certain things i.e., skill, personality, experience, abilities, and knowledge regarding that particular field . The effort an employee puts into work; performance and motivation are all linked to employee motivation. This model uses three variables, including expectancy, valence, and instrumentality. Expectancy is defined as the belief about how much effort an employee puts into their work that will lead toward increased performance . Valance is defined as the importance an employee gives or places on the expected outcome. Instrumentality is defined as an employee's belief that if they do well in an organization, a valued outcome will be received. In this study, an organization motivates employees to work well and when they do so they receive incentives for the work they have done. Employees feel motivated by these rewards, which creates employee loyalty among them as they think organizations care about their contribution and their needs at the same time. If organizations do not provide incentives to employees who have performed well in the organization, they will feel demotivated and their performance will also decrease, and they will not trust the organization's rules and procedures, potentially decreasing employee loyalty as well . Organizations try to motivate their employees by either providing them with a good healthy working environment and in this case, with a leader who will make sure that the working environment motivates an employee to increase loyalty and job performance. Therefore, there is a continuous cycle connecting staying healthy, job performance, incentives, and rewards to future job performance

Literature Review-

1.Ravi (2015) in his paper stated that in order to attain organisational effectiveness and high employee morale sound employee incentive system should be designed by the management. An effective incentive scheme leads to job satisfaction. He further stated that entrepreneurs engaged in manufacturing sector must provide both monetary and non-monetary incentives to their employees to boost their morale and productivity, which in turn will result in the overall profitability of the firm. He concluded that both incentives i.e., monetary and nonmonetary along with better work-life should be provided to the employee for improved productivity.

2. Olake, Oni, Babalola &Ojelabi (2017) examined the impact of incentive packages on employees' productivity in real estate firms in Nigeria. Panel survey approach was adopted to determine the firms using incentive packages. They found that there is a strong relationship between incentive and productivity of employees. They also stated that a large number of employees are dissatisfied with what they are offered as incentives by the majority of the real estate firms. Incentives packages are not the only determinants of Review of Business and Technology Research, Vol. 15, No.1, August 2018,

ISSN: 1941-9406 (Print), ISSN: 1941-9414 (CD) 21 performance in real estate firms. They concluded that real estate firms are needed to revive their incentive schemes in order to improve the productivity of potential employees. The opinion of the employees should also be obtained regarding incentive packages.

3.Wei Liu and Yaoping Liu(10 February 2022) This focus was explored in the present study by identifying the responses of hospitals and physicians to the business cycle to examine the impact of incentives on job performance and health of workers in public and private sector hospitals in Shandong, Eastern China. Data were collected in the form of questionnaires that consisted of close-ended questions. These questionnaires were then filled out by 171 doctors and 149 nurses working in both public and private sectors in Shandong, Eastern China. The results showed that there is a relation between different variables. Some variables have more impact on other variables such as transformational leadership, which has a significant impact on the job performance and business cycle, whereas monetary incentives also impact job performance and population health, but this impact was lower than that of transformational leadership in terms of how job performance influences emerging economies.

4. Reddy & Karim (2013) conducted empirical study to identify the impact of incentives on factors which affect employees' performance to fulfil their objectives. Employees were classified into three categories i.e. Supervisory staff, Clerical staff and Workers and data analysis was done on the basis of mean score and z- test. Their study concluded that incentive schemes have a positive impact towards attendance, job loyalty, employees' productivity, improvement in team work, rewarding efficient workers and other factors that affect the employees' performance. They further stated that as a result of incentives employees tend to work overtime which causes health problems. The overall analysis suggested that incentive schemes can be made more effective if incentives are provided on weekly basis instead of fortnight basis and it should be based on shift average production of team in order to pro mote team work.

Conclusion-

On the basis of the literature reviewed, it can be concluded that there is a positive relationship between incentives and productivity. The greater number of employees are contented with what they are paid in terms of money. It has been observed that financial incentives have a great influence on employee productivity but at the same time, the importance of non-financial incentives cannot be overlooked, as employees also expect appreciation and recognition for their work. Motivated employees tend to be loyal towards their job and less likely to leave the organisation. The study suggests that there is a need to increase the financial incentive for improved productivity and profitability. Other non-financial incentives like growth opportunity, better quality of work life should also be taken into consideration. Companies should make use of both financial and non-financial incentives so that organisational and individual objectives can be achieved. Employees' suggestions should be sought in designing incentive policy. The study also recommends that there should be a separate unit in the company to look after the issues related to pay packages

References –

G.Ahiabor, "The impact of Incentives on Productivity of Firms in Ghana: A Case Study of Ghana Airport Company Limited",Problems of Management in the 21stCentury,Vol.8, pp.6-1, 2013.

N. Khan, H.Waqas& R.Muneer, "Impact of Rewards (Intrinsic and extrinsic) on Employee Performance with Special Reference to Courier Companies of City Faisalabad, Pakistan", International Journal of Management Excellence, Vol.8, Issue.2, pp.937-945, 2017.

O. C. Olake, A. S. Oni, D. O. Babalola &R. A.Ojelabi, "Incentive Package, Employee's Productivity and Performance of Real Estate Firms in Nigeria",European Scientific Journal, Vol.13,Issue.11, pp.246-260, 2017.

T. S. Ravi,"Impact of Labour Incentives on Productivity in Selected Chennai-Based Manufacturing Companies",Abhinav International Monthly Refereed Journal of Research in Management & Technology, Vol.4, Issue.2, pp.22-32, 2015.

https://www.researchgate.net/publication/314801489_The_Effect_of_Financial_and_Non-financial_Incentives_on_Job_Satisfaction https://www.vedantu.com/commerce/incentives

Introduction- Motivation plays a critical role globally in achieving goals and business objectives and is equally as important for companies that work in a team-based environment or in a workplace comprised of workers who work independently