

# Impact of Financial and Non-Financial Incentives Schemes on Employee Performance: A General Perspectives

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## Abstract

Human resource is the most valuable assets of every organization. The productivity and profitability of organization is depends on the employees. The purpose of the study is to identify the impact of financial and non financial incentives schemes on employee performance. This study is based on descriptive research methodology and using secondary data for collecting the different views regarding the incentives and employees performance. By reviewing the various literatures, it observed that there are number of incentives factors influence the employee performance and organizational productivity. Thus incentives plays most important role for motivate the employees at workplace.

**Keywords:** *Financial Incentives Schemes, Non-Financial Incentives Schemes, Employee Performance*

## I. INTRODUCTION

Motivation is an internal feeling of an employee. It can't be observed directly. Every employee want some form of motivation i.e. financial and non-financial incentives so he will be more encouraged to work. Mishra and Bhandari (2013) found that employees are highly motivated by the non financial incentives schemes, good organizational climate, rewards and recognition. The employee within the organization put their best within the job when they are appropriately rewarded. There is strong relationship between incentives schemes and employees performance. Ramesh (2013) Performance of employees in any organization depends on the policies, procedures and facilities adopted by the organization. The effective and efficient policies and welfare facilities make the employee to perform the job better, which leads to effectiveness of the organization. An effective incentives scheme is considered to be the most important factor for improving the performance of the employees. Choudhary and Ghosh (2017) suggest that incentives program and performance of the employees are directly related to each other. Incentives connect the employee to the work and organization.

**1.1 Incentives:** The incentive is a positive motivational influence on a employee that helps improve his performance. It can be said that all the instruments taken by the organization to improve the performance of the employees are incentives. The incentives can be generally classified as financial incentives and non financial incentives:

### 1.1.1 Financial Incentives Schemes and Employee Performance

A financial incentive refers to those incentives which are related to money or can be measured in monetary terms. Financial incentives can be provided on an employees and satisfy the monetary and future security needs of employees. Financial incentives are:

**Pay and Allowances:** salary is the basic incentive pay for every employee to work efficiently for an organization. Salary includes: basic pay, dearness allowance, house rent allowance, and similar other allowances. For motivating the employees, organization should increments in basic pay every year and also an increase in their allowances from time to time.

**Bonus:** Bonus is the additional money offered to an employee over and above the salary or wages as a reward for his good performance.

**Profit- Sharing:** Profit-Sharing means employee is given a share in the profit of the organization for motivating them to perform efficiently and give their best to increase the profits of the organization.

**Retirement Benefits:** Retirement Benefits incentive provides security to the employees post their retirement. They include gratuity, pension, provident fund, leave encashment etc.

**Employee Stock Option or Co-Partnership:** Under the employee stock plan, the employee is offered the ordinary shares of the organization at lower price than its market price for specified period of time.

**Fringe Benefits:** Most of the organization offers fringe benefits like accommodation, car allowance, medical facilities, education facilities, recreational facilities, etc.in addition to the salary and allowance to its employees. These incentives motivate the employees to work efficiently in an organization.

### 1.1.2 Non- Financial Incentives Schemes and Employee Performance

Every employee in an organization has physiological, social and emotional need for working efficiently. These needs cannot be measured in terms of money. Satisfying these needs play an important role in their motivation. Non financial incentives focus on the fulfilment of these needs for motivating and better performance of the employee in organization. Non- financial incentives are:

**Employee Recognition Programme:** Recognition means appreciation of work done by employees in an organization. Recognition boosts the self esteem need of employees and they feel motivated in an organization. There is the certain way of recognize the employees such as declare the best performer of the week or month, displaying their names on the notice board, and giving them reward for best performance.

**Organization Climate:** Organization climate refers to the environmental features of an organization that are perceived by its employees about the organization. Organization climate influence behaviour of an employee in an organization. Organization structure, individual responsibility, rewards, risk support, conflict are the factors that influence the organization climate. When the organization climate is positive, employees feel more motivated in an organization.

**Job Security:** Job security works as great incentives for employees. They provide future stability to the employees, that the employees are not concerned about the future and thus work with more enthusiasm.

**Job Enrichment:** Job enrichment refers to the designing of job in such a way that involves a higher level of knowledge and skill, a variety of work content, more autonomy, and responsibility of employees, meaningful work experience and more opportunities of growth. When the job is interesting, it itself serves as source of motivation.

**Career Advancement Opportunities:** It is very important for an organization to organize knowledge and skill development program and sound promotion policy for its employees which works as a motivator for them to well perform in the organization.

**Employee Empowerment:** Employee empowerment means to giving autonomy and powers to subordinates .employee empowerment make them feel that they are important to the organization.

**Employee Participation:** Employee participation means to involving the employees in decision making helps in motivating them and inducing a sense of belongingness in them.

## II. OBJECTIVES OF THE STUDY

- To identify the various financial and non financial incentives schemes used by the organization to improve the performance of employees.
- To identify the relationship between incentives schemes and employee performance.
- To provide adequate recommendation and suggestion to make incentives system more effective.

## III. RESEARCH METHODOLOGY

This research is based on qualitative study used secondary source of data. All the relevant and required data have been collected from books, journals, magazines, research articles and online sources. This study shows the financial and non-financial incentives schemes used by the organization for improving the performance of the employees, and suggest the suitable measures to make incentives schemes system more effective.

#### IV. LITERATURE REVIEW

**Agbenyegah (2019)** identify the effect of financial and non financial rewards in motivating employee performance in financial institution in Ghana. This study used qualitative methodology with exploratory approach. Researcher found that, financial and non financial reward affects the employee performance. They recommend that organization should make upward adjustments in wages, allowances, retirement benefits, leave benefits and affordable housing schemes will increase the employee productivity. They further suggest that organization should provide the training for various categories of employees in order to improve and develop their conceptual, human and technical skills.

**Kushwaha (2018)** , examined the impact of various financial and non- financial incentives schemes on employee productivity. This is a qualitative study. They found that there is positive relationship between incentives and productivity. They observed that financial incentives (pay, bonus, benefits etc.) and non-financial incentives (recognition, status, employee participation, etc.) have a great influence on employee productivity and motivate the employee in organization. They suggest that organization need to increase the financial and non-financial incentives at the same time for improved productivity and profitability.

**Urubio (2017)** examined the role of incentives program in enhancing the employee performance in some selected company of Behrain.They used the descriptive-evaluate approach as a methodology and data have been collected by questionnaire and interview method. They found that financial and non financial incentives both are equally influence the performance of employees. Author concluded that not only money alone or financial incentives make employee motivated to work. Study recommends that if possible, companies should couple the non-financial incentives program with financial incentives program.

**Heshmati et.al (2016)** examined the impact of financial and non financial measures on employee motivation to participate in organization target setting in Telecommunication Infrastructure Company (TIC).it is an applied study and uses the descriptive- survey design. Sample size was 334 employees by stratified sampling method. The data analysis and hypothesis part was carried out by using confirmative factor analysis by AMOS software ver.22. They found that financial and non-financial measures have positive and significant effects on employee participation in target setting. They further revealed that financial and non financial incentives measures affect the intrinsic and extrinsic motivation of employees. They suggest that positive reinforcement of intrinsic and extrinsic motivation enhance the employee job performance and organization goals are achieved more quickly through employee participation.

**Rakshana and Gaffoor (2014)** investigate the impact of financial and non financial motivation on employee performance in Orient Lanka Confectionary Private Limited, Kandy. They used descriptive ,sample size was 100 and self developed questionnaire was design and analyze the relationship between two variables that is invectives and employee performance, data analysis was carried out using

statistical analysis tool i.e. correlation and regression analysis. The research revealed that non financial motivation is highly affect the employee performance than financial motivation in Orient Lanka Confectionary. They suggest that organization should design the more systematic financial motivation incentives i.e. pay, bonus and benefits and non financial motivation incentives i.e. security needs, social needs, self-esteem needs, self actualization needs of employee for improving the performance of employees.

**Oni-ojo et.al (2015)** conducted study to evaluate the attitude of employees towards incentives and their job satisfaction. They collect the data of 127 respondents from managerial and non managerial staff using questionnaire and interview method. For analyzing the data SPSS tool used with descriptive statistics and regression analysis. They found that financial reward influences the employees externally and non financial rewards influence employees internally.

**Yousaf et.al (2014)** examined the impact of financial and non financial incentives on employee motivation. This research based on qualitative research and used questionnaire and interview method for collecting the data of employees. They found that there are various factors (financial and non financial) responsible for the motivation of employees. In developing countries, financial rewards are important because of cost of living is high, but at the same time non financial rewards are equally important to employees. In this study financial incentives are salary, bonus, fringe benefits and non financial incentives are recognition and appreciation that motivating the employees. Researchers identify that money is important financial factor that full filled the basic needs of employees and non financial incentives improving the morale and job satisfaction of the employee. Authors suggested that organization should systematically arrange the monetary and non-monetary incentives for motivating and retaining the employees.

**Harunavamwe and Kanengoni (2013)** conducted a study to identify the effect of monetary and non monetary rewards on employee motivation in Retail Shop. It is empirical study. They collected the data of 50 respondents through random sampling method using questionnaire survey technique. They found that monetary rewards such as money are not the influencing factor. Non monetary rewards i.e. flexible working hours highly motivate the employees in Retail shop. Researcher suggested that organization should implement the effective motivational techniques to meet the needs of the employees.

**Narsee (2012)** this study compare the impact of monetary and non monetary rewards programs for employee and organization motivation. The survey was conducted on 405 respondents working in South Africa. The result revealed that monetary rewards such as basic pay, performance related bonus and non monetary rewards such as career development opportunities and work performance recognition highly motivate the employees.

## V. CONCLUSION

The conceptual framework of the study concluded financial and non financial incentives both are equally important factors for influencing the employee performance and there is the positive relationship between incentives schemes and employee performance. The study observed that financial incentives such as basic salary, bonus fringe benefits, retirement benefits etc. And non financial incentives such as recognition, job security, and opportunity for career development, employee empowerment etc. motivate the employees in an organization.

## VI. SUGGESTIONS AND RECOMMENDATIONS

The study suggests that organization should make use of both financial and non financial incentives for improving the organization productivity and profitability. They also recommend that organization should include more financial factors such as profit sharing, employee stock option plan, promotion based incentives and also includes more non financial incentives such as suggestion schemes, growth opportunity, better quality of life, job rotation taken into consideration for motivating the employees.

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