International Journal of Research in Economics and Social Sciences(IJRESS)
Available online at: http://euroasiapub.org
Vol. 10 Issue 2, February- 2020
ISSN(o): 2249-7382 | Impact Factor: 6.939 |

Study of Role of Incentives in Building up Employee Performance

Dr. Manoj Manoharrao Telrandhe
Associate Professor
Department of Commerce
ShriNarendraTidke Arts & commerce
College, Ramtek, Dist Nagpur

Abstract :

An incentive in any organisation is a motivator that can be both extrinsic and intrinsic in nature. Some basic examples are grades in school and bonuses at the workplace. The incentive is an external element that is introduced to someone to induce the behavior towards a goal.

According to study, incentives are what motivate you to behave in a certain way, while preferences are your needs, wants and desires. Economic incentives provide you the motivation to chase your preferences.

Incentives are very supportive to ensure a higher level of morale among employees.

Keywords : incentives, employee performance, workplace

Introduction :

It is widely debated that the pivotal function of Human resource management is to implement practices that enhance the satisfaction of employees with their jobs. Employees expect financial and non-financial rewards for their services and efforts. In the absence of equitable pay, training and development opportunities and recognition, employees get dissatisfied and do not perform to the standards. The dissatisfaction resulting from the unavailability of financial and non- financial reward usually leads to high employee turnover and poor performance. The benefits that employee foresee for themselves and their families motivates the employees to give their best. The Rewards are categorized into two groups‟ financial and non-financial rewards. The financial rewards are also called extrinsic rewards and non-financial rewards are called intrinsic rewards. The financial rewards include pay, bonuses, allowances, insurance, incentives, promotions and job security, whereas the non-financial rewards include. Appreciation, meeting the new challenges, caring attitude from employer, appreciation and recognition motivates the employee.

The design and management of motivational reward systems present managers with one of the most difficult human resource tasks. Bagraim et al. (2007) noted that, there is need to find out the needs and goals of employees in order to address them and achieve the required motivation. Thompson et al. (2005) indicate that a properly designed motivational reward structure is management's most powerful tool for mobilizing organizational commitment to successful strategy execution and productivity. Arnolds and Venter (2010) stated that there is a huge crisis of motivation in most large corporations. Their findings show that, business firms spend billions of money each year oncourses and incentives, to increase employee motivation, but these interventions do not always translate into higher levels of employee motivation. This is as a result of the different perceptions between management and subordinates on the way organizational goals should be achieved.

Employees and managers give different levels of importance to various motivational rewards depending on the situation. Delany and Turvey (2007) noted that, managers want a workforce with speed, high productivity and adaptability to change. Employees on the other hand want an entrepreneurial environment, strong skill development and opportunities for growth and competitive compensation to be motivated. A body of experience, research and theory has been developed to study motivational rewards. Some of the researches focused on non-financial motivational techniques. An example is the research by Arnolds and Venter, (2007) on the strategic importance of nonfinancial motivational rewards. However other research for example Ramlall (2004) focused on money as a motivator on all levels of employment. This presented challenges and misconceptions regarding money as a motivator since different levels of employees are motivated by different factors. For example, it is possible that lower level employees whose needs fall under lower order needs according to Maslow’s hierarchy of needs can be highly motivated by monetary rewards depending on how these financial rewards are administered.

Objectives :

1. To know the implemented incentives approach in the organisations.
2. To identify financial and non-financial incentives adopted in organisations
3. To access the impact of financial and non-financial incentives on employee performance.

Hypothesis

There is a significant relationship between financial and non-financial incentives and employee performance

Incentives :

The incentive is a positive motivational influence on a person that helps improve his performance. Thus, it can be said that all the measures taken by the management to improve the performance of its employees are incentives. The incentives can be broadly classified as financial incentives and non-financial incentives.

Financial Incentives

In today's socio-economic condition money has become a very important part of our lives. We need money to satisfy almost all our needs as it has purchasing power. Thus, financial incentives refer to those incentives which are in direct monetary form i.e. money or can be measured in monetary terms.

Financial incentives can be provided on an individual or group basis and satisfy the monetary and future security needs of individuals. The most commonly used financial incentives are:

(a) Pay and Allowances

Salary is the basic incentive for every employee to work efficiently for an organization. Salary includes basic pay, dearness allowance, house rent allowance, and similar other allowances. Under the salary system, employees are given increments in basic pay every year and also an increase in their allowances from time-to-time. Sometimes these increments are based on the performance of the employee during the year.

Browse more Topics under Directing

- Introduction, Meaning, Importance & Principles of Directing
- Elements of Direction
- Leadership
- Communications

(b) Bonus

It is a sum of money offered to an employee over and above the salary or wages as a reward for his good performance.

(c) Productivity linked Wage Incentives

Many wage incentives are linked with the increase in productivity at individual or group level. For example, a worker is paid 50 rupees per piece if he produces 50 pieces a day but if he produces more than 50 pieces a day, he is paid 5 rupees extra per piece. Thus, on the 51st piece, he will be paid 55 rupees.

(d) Profit-Sharing

Sometimes the employees are given a share in the profits of the organization. This motivates them to perform efficiently and give their best to increase the profits of the organization.

(e) Retirement Benefits

Retirement benefits like gratuity, pension, provident fund, leave encashment, etc. provide financial security to the employees post their retirement. Thus, they work properly when they are in service.

(f) Stock Options or Co-partnership

Under the Employees Stock Option Plan, the employee is offered the ordinary shares of the company at a price lower than its market price for a specified period of time. These are non-standardized offers and shares are issued as a private contract between the employer and employee. These are generally offered to management as a part of their managerial compensation package.

Allotment of shares induces a feeling of ownership in the employees and they give their best to the company. Infosys, GoDaddy and The Cheesecake Factory are some of the companies that have implemented the scheme of the stock option.

(g) Commission

Some organizations offer a commission in addition to the salary to employees for fulfilling the targets extremely well. This incentive encourages the employees to increase the client base of the organization.

(h) Perquisites

Several organizations offer perquisites and fringe benefits such as accommodation, car allowance, medical facilities, education facilities, recreational facilities, etc. in addition to the salary and allowances to its employees. These incentives also motivate the employees to work efficiently.

What is Communication?

Non-Financial Incentives

Apart from the monetary and future security needs, an individual also has psychological, social and emotional needs. Satisfying these needs also plays an important role in their motivation. Non-financial incentives focus mainly on the fulfillment of these needs and thus cannot be measured in terms of money. However, there are chances that a particular non-financial incentive may also involve the financial incentive as well. For example, when a person is promoted his psychological needs are fulfilled as he gets more authority, his status increases but at the same time, he has benefitted monetarily also as he gets a rise in salary. The most common non-financial incentives are:

(a) Status

With reference to an organization, status refers to the position in the hierarchy of the organizational chart. The level of authority, responsibility, recognition, salary, perks, etc. determine the status of an employee in the organization.

A person at the top level management has more authority, responsibility, recognition and salary and vice-versa. Status satisfies the self-esteem and psychological needs of an individual and in turn, motivates him to work hard.

(b) Organizational Climate

Organizational climate refers to the environmental characteristics of an organization that are perceived by its employees about the organization and have a major influence on their behavior. Each organization has a different organizational climate that distinguishes it from other organizations.

Some of the factors that influence the organizational climate of an enterprise are organizational structure, individual responsibility, rewards, risk and risk-taking, warmth and support and tolerance and conflict. When the organizational climate is positive employees tend to be more motivated.

(c) Career Advancement Opportunity

It is very important for an organization to have an appropriate skill development program and a sound promotion policy for its employees which works as a booster for them to perform well and get promoted. Every employee desires growth in an organization and when he gets promotion as an appreciation of his work he is motivated to work better.

(d) Job Enrichment

It refers to the designing of jobs in such a way that it 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 a source of motivation.

(e) Job Security

Job security provides future stability and a sense of security among the employees. The employees are not worried about the future and thus work with more enthusiasm. Owing to the unemployment problem in our country, job security works as a great incentive for the employees. However, there is also a negative aspect of this incentive that employees tend to take their job for granted and not work efficiently.

(f) Employee Recognition Programmes

Recognition means acknowledgment and appreciation of work done by employees. Recognition in the organization boosts their self-esteem and they feel motivated. For example, declaring the best performer of the week or month, displaying their names on the notice board and giving them rewards, fall under the Employee recognition program.

(g) Employee Participation

Involving the employees in decision making regarding the issues related to them such as canteen committees, work committees, etc. also helps in motivating them and inducing a sense of belongingness in them.

(h) Employee Empowerment

Giving more autonomy and powers to subordinates also make them feel that they are important to the organization and in turn they serve the organization better.

Role of Incentives in Employee Performance :

Productivity is usually defined as the ratio of inputs to outputs. It essentially measure how efficiently production inputs such as labour and capital are being used to produce a given level of output (Krugman, 1994). Okoye and Ezejiofor (2013) opined that organizational productivity is the measure of how well an organization functionsand also an indication of efficiency and competition. Also it is a measure of how well resources are brought together and utilized for accomplishing set objectives (Mali, 2008 in Okoye&Ezejiofor, 2013). Productivity is a global concern, which has inseparable ties to the longevity of the organization (Arraya, 2013). It is the key for survival in the cut-throat world of business and gives the organization a key competitive advantage above its peers when it is able to do more with less (Arraya, 2013). The baseline for economic productivity of an organization is the strength and quality of human capital. Human capital refers to the skills, abilities, competencies and qualities of an organization's employee's. It comprises of the knowledge and expertise employee's apply to produce products and services and to the operations of the organization, its equipment and machineries (Arraya, 2013). When human capital is adequately motivated, it leads to enhancement in productivity and service delivery.

In economics, productivity is the ratio of what is produced to what is required to produce. It is the measure of production efficiency over a given period of time. To the engineer; productivity means new technology, machines and equipment, measurement and controls. To a business manager, productivity has various meanings including effectiveness and efficiency. This is because in management there are no measurable units of output, no productivity function and the non-existence of an effective data base. Agoro (1991) uses the word productivity to mean the output per unit of factor input over a given period of time. It is the ratio between the output of wealth produced and the input of resources consumed in the process of production. Adekoya (1991), agree emphasizing that productivity is a measure of how well labour resources/skills are brought together in a firm and utilized for accomplishing a set result. Efficiency in production is measured by the ratio of input to output. Efficiency in the utilization of labour in an organization involves obtaining the highest level of employee's productivity from the employee's with the least expenditure in labour wages. The International Labour Organization (ILO) as cited in Prokopenko (1992) defined productivity to be the effective and efficient utilization of all resources; capital, labour, material, energy, information and time. In this paper, Nwasike's (1991) definition is used, as a working definition. She defined productivity as: „The efficiency with which inputs are used to produce the desired output". Earlier, Udo-Aka (1983) defined productivity as a measure of overall production efficiency, effectiveness and employee's productivity of the individual organization.

Hypothesis Testing :

H_{01} - There is no significant relationship between financial and non-financial incentives and employee performance.

H_{01} - There is a significant relationship between financial and non-financial incentives and employee performance.

This hypothesis regarding association between readers satisfaction and sustainability of newspapers is tested through the One Sample t-test using statistical software SPSS.

N	Mean	Std. Deviation	Std. Error Mean
100	2.621	1.43081	.03244

Test Value = 5					
t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
-70.600	99	.000	-2.27050	-2.3541	-2.2269

To test this hypothesis; a Likert scale is used. Response of 50 respondents are recorded and inputted in the SPSS software. The mean value generated is 2.621 and Standard Deviation is 1.43. The test value is set as 5 as Likert scale is five level scale to record the responses. From the above One Sample t-test hypothesis is significant i.e. 0.000. So the NULL hypothesis is rejected and the alternate hypothesis 'There is a significant relationship between financial and non-financial incentives and employee performance'.

Conclusion

In summary, what can be concluded is that both financial and non-financial rewards have impact on employee motivation. The impact which rewards have on motivation can be reinforcing or hindering one's motivation. It is considered that the NRA has well managed to reward its employees as none of the employees felt that they are not motivated at all. For this case study organization what can be concluded is that the total rewards which they have in use are positively impacting the employee motivation as suggested by the regression result. From the findings the study recommends reward packages must be valuable to the employees and should be based on realistic and reliable standards. The rewards exercised at NRA must be clearly identified and should have some meaning for the employees. The reward plan exercised at NRA should be made clear to the employees so that they can simply determine personal cost benefits for different level of effort they put. The human resource department at NRA should consider developing clear policies and rules pertaining to how workers will be paid and the rules forachieving the standards and rewards should be understandable to all employees.

References :

- Arraya, M. &Pellissier R. (2013) Productivity Measurement in a Sports Organization Southern African Business Review 17 (1) 98-127
- Gohari, P., Kamkar, A., Hosseinipour, S. J. and Zohoori, M. (2013). Relationship between Rewards and Employee Performance: A Mediating Role of Job Satisfaction. Interdisciplinary Journal of Contemporary Research in Business, Vol 5 (3).
- Puwanenthiren, P. (2011), Reward System and its Impact on Employee Motivation in Commercial Bank of Sri Lanka Plc, In Jaffna District.Global Journal of Management and Business Research, vol. 11(14).
- Samuel Mansaray-Pearce 1* , Abdulkarim Bangura2 , Joseph Marx Kanu, The Impact of Financial and Non-Financial Rewards on Employee Motivation: Case Study NRA Sierra Leone, International Journal of Research in Business Studies and Management Volume 6, Issue 5, 2019, PP 32-41 ISSN 2394-5923 (Print) & ISSN 2394-5931 (Online)
- Cross OgohiDanial, Effects of Incentives on Employees Productivity, International Journal of Business Marketing and Management (IJBMM), Volume 4 Issue 1 January 2019, P.P. 41-48, ISSN: 2456-4559
- https://saylordotorg.github.io/text_organizational-behavior-v1.1/s10-05-motivating-employees-through-p.html
- https://unacademy.com/lesson/role-of-incentives-in-building-employee-morale/WF1IRU6C
- https://www.careerlauncher.com/rbi-grade-b/motivation-morale-incentives/
- https://smallbusiness.chron.com/incentives-boost-employee-morale-17723.html
- https://smallbiztrends.com/2018/05/benefits-that-boost-employee-morale.html
- https://www.eajournals.org/wp-content/uploads/The-Role-of-the-Financial-and-Moral-Incentives-on-Employees----Performance-In-Academic-Libraries1.pdf
- https://www.toppr.com/guides/business-studies/directing/incentives/
- https://www.ijrbsm.org/papers/v6-i5/4.pdf