IMPACT OF FINANCIAL AND NON-FINANCIAL INCENTIVES ON EMPLOYEE PRODUCTIVITY

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ABSTRACT

The objective of this study is to identify financial and non-financial incentives affecting the productivity of employee in companies. The paper does not only discuss the productivity of employee that affects organisational performance but also focusses on retaining most valuable asset in the organisation. Factors that enhance employee productivity differs from industry to industry. Descriptive research methodology has been adopted in this study. Secondary sources are used to review various literature related to the topic. By reviewing variously related literature, it is concluded that there are number of factors that affect the productivity of employee, that can be categorised into financial and non-financial incentives. Financial incentives are imperative for improving the productivity of employee in a developing country like India where the cost of living is so high but at the same time, the importance of non-financial incentives cannot be overlooked.

Keywords- Employee productivity, Financial and Non-Financial Incentives.

I. INTRODUCTION

Every organisation irrespective of their size has certain goals to achieve and such goals can only be attained by recruiting and maintaining well qualified human resources in the organisation. The employee in the organisation put their best in the job only when they are suitably rewarded. There is a strong relationship between incentives and productivity of an employee. An effective incentive program is considered to be the most important factor in improving the productivity of the employee. Performance of the employee depends upon the incentive system effective in the organisation. The higher the incentive the more will be the productivity of the employee. A well-balanced incentive system helps organisation attracting and retaining the talented employee. It is the incentive which engages employee with the work and organisation. Money is considered to be the most important factor in improving the productivity of employee although there are certain other financial (salary, wages, bonus, medical allowance, transport allowance, retirement benefits etc.) and non-financial incentives (recognition, participation, growth opportunity, job enrichment etc.) affecting productivity. The study focuses on incentives used by companies to improve the productivity of employees. Related literatures have been reviewed to draw the conclusion

II. OBJECTIVES

1. To identify various financial and non-financial incentives used by companies to improve the productivity of employees.
2. To identifythe relationship between incentives and employee productivity.
3. To provide suggestions to make incentive system more effective.

III. 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.

IV. LITERATURE REVIEW

1.**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 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.

2.**Khan, Waqas and Muneer (2017)** studied the impact of intrinsic and extrinsic rewards on the job performance of employees. The views and experiences of employees were collected using questionnaire and data analysis was done with the aid of SPSS. The target population in the study were employees working in courier companies and respondents for the study were chosen through stratified convenient sampling. The study was focussed on both intrinsic and extrinsic rewards. They stated that employees' personality is greatly influenced by these rewards and encourages them to be loyal and perform better. They further stated that there is a strong positive relationship between these type of rewards and job performance of employees.

3.**Achie &Kurah (2016)** conducted a study on the employee of Nigeria electricity distribution companies to find out the role of financial incentives as a motivator in employee productivity. The population size was taken as 65 and through simple random sampling, 45 staff was selected as a sample. The data obtained through questionnaires were analysed and revealed that financial incentives play a vital role on employee productivity and can be considered as a tool for getting an edge over competitors as it leads to improved productivity and overall profitability of the organisation. They further stated that besides financial incentives and salaries other factors also have a bearing on employee productivity which enables them to put their best in the organisation. They suggested that financial incentives along with other motivational factors should be increased to attain higher productivity and profitability.

4.**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 non-monetary along with better work-life should be provided to the employee for improved productivity.

5.**Yousaf, Latif, Aslam & Siddiqui (2014)** in their paper identified various financial and non-financial incentives that affect employees motivational level. They did not only talk about the importance of incentives but also about retaining them in the organisation. The qualitative research methodology was adopted to conduct the survey. The questionnaire and semi-structured interview were used to collect the views of employees about motivation. They found that there are different factors responsible for the motivation of employees and such factors can be divided into financial and non-financial incentives. Financial incentives are important for developing countries where the cost of living is high but at the same time, one can also not deny the importance of non-financial incentives. The financial factors of motivation that came out of the study were salary, bonus, health insurance and fringe benefits and non-financial factors were appreciation and recognition. The researchers ranked money at the top amongst the various motivational factors as it helps employees fulfil their basic needs. Non-financial incentives are also imperative for improving the morale of employees. They concluded that the organisation should pay attention to various issues related to incentives and focus on both monetary and non-monetary factors of motivation in order to retain and motivate employees in the organisation.

6.**Safiullah (2014)** conducted a study to identify the relationship of extrinsic and intrinsic rewards and their effect on employees' performance and motivation. To fulfil their objective data was analysed using mean values and frequency percentage tables. Their study concluded that with advancement in career path, income level and age intrinsic rewards become a more important factor for employees' motivation. They further revealed that employees need to be motivated with those factors which form the content of their job. It is important to connect employees' performance with pay as money stands as an effective motivator.

7.**Ahiabor (2013)** conducted a study to identify the role of incentives on employee productivity on firms in Ghana. Objective based questionnaire was designed to collect data. The data collected was analysed and processed using simple percentage and frequency. The study revealed that positive relationship between incentives and productivity. Factors other than monetary incentives should also be involved to improve the productivity and attain organisational effectiveness. He further concluded that non-monetary factors like recognition, respect, appreciation, health, equipment use have more importance than monetary incentives. He recommended the formation of new unit to look after the issues related to incentives for enhanced productivity. The function of such unit would be to promote, monitor and boost the morale of employees in the company. This unit will also conduct the study on the welfare of employees and the findings of such study will be useful for recommending better incentive system. The company should always find talented employees to reward which will serve as an incentive to others.

8.**Sajuyigbe, Olaoye& Adeyemi (2013)** conducted a study to identify the impact of incentive on employees' performance on manufacturing concerns in Ibadan, Oyo State Nigeria. The data was collected from 100 employees participated in the study using structured questionnaire through purposive sampling method. Regression analysis was used to analyse data with the help of SPSS. They concluded that incentives have significant impact on performance of employees They further stated that incentives like recognition, appreciation and bonus should be used as a tool to motivate employee improve their performance. It was inferred from the study that management and employees should be concerned with incentive packages. They recommend that both intrinsic and extrinsic incentives should be used by the organisation to motivate its employees for achievement of individual and organisational objectives. Management must frame reward packages as per the needs of different individuals. Pay structure of the employees should be determined in consultation with them.

9.**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.

10.**Srivastava &Barmola (2011**) designed a study to establish a link between motivation strategies and employee's commitment to increase productivity. They conducted a concept based study to offer a probable picture on how motivation results in higher productivity. They suggested that the employee will perform well and can be motivated only when they find the work to be meaningful and believe that they are responsible for the outcome of the tasks assigned to them.

V. CONCLUSIONS

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

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