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ijcbrb. webs. com INTERDISCIPLINARY JOURNAL OF CONTEMPORARY RESEARCH IN BUSINESS COMPARING THE IMPACT OF FINANCIAL AND NON-FINANCIAL REWARDS TOWARDS ORGANIZATIONAL MOTIVATION AUGUST 2011 VOL 3, NO 4 Rosliza Md Zani¹, Nazahah Abd Rahim¹, Sutina Junos¹, Shuhaimi Saman², Sarah Sabir Ahmad¹, Farah Merican Isahak Merican¹, Shakirah Mohd Saad¹, Intan Nazrenee Ahmad¹ 1 Faculty of Business Management, Universiti Teknologi MARA Kedah, P. O. Box 187, Sg. Petani, Kedah, Malaysia 2 Faculty of Mechanical Engineering, Politeknik Seberang Perai, Penang, Malaysia

ABSTRACT The main aim of this paper is to investigate the relationship of the two types of rewards namely financial rewards and non-financial rewards towards employees' motivation. Based on past literature, it is found that financial rewards or money has become the main motivator for employees' performance in organizations. Traditionally, little thought has been given to the impact of non-financial rewards as it does not hold any immediate monetary value to the employees. However, in the context of heightened awareness among employers and employees, there has been greater emphasis on non-financial rewards such as praise and recognition as it holds a deep and greater impact to the employees especially in the long run. This paper defines the nature of financial and non-financial rewards and discusses the impact on employee's motivation. By undertaking a comparison between the financial and non-financial rewards, this paper identifies the differential nature of the rewards and discusses some of their consequences. The outcome of this paper provides vital information for organizations to structure a better rewards plan for their employees. **Keywords:** Rewards, Motivation, Organization, Employee 1.

Introduction Motivation is a central element in a learning process of a human. In the organizational context, motivation plays an important role in ensuring organizational success as humans are the heart of an organization. Humans or employees without motivation are not able to carry out the job perfectly. If the organization is not able to motivate its employees, the knowledge within the organization is not efficiently used. Therefore, it becomes the aim of every organization to search for the clues to motivate employees; otherwise the organization will face difficulty to maintain its workforce thus achieving the goal. How to motivate employees? This is the question most organizations are asking themselves. Is money the best way to motivate these people? If employees are asked to choose between money and enjoyment of work, what would be their choice? Currently, many organizations are implementing reward programmes. Large amount of money are being spent in these programmes. Reason being, these types of incentives or rewards will increase employees' motivation, will also make them stay longer in the organizations. However, will money really make things work? Motivating employees using pay-for-performance is a long-established management practice. It is expected to boost employees' effort as well as performance. Expectancy theory by Victor Vroom in 1964 clearly stated that employees' effort is increased when rewards are offered. On the other hand, there were also literatures that did not support what Vroom had found. The first evidence that employees are not motivated by money was found by Elton Mayo in his research known as the Hawthorne studies. The result found that human relations and understanding attitudes were more

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ijcrb. webs. com VOL 3, NO 4 motivating than money. Employees seek attention from managers and this will make them becoming loyal employees.

This paper seeks to understand the nature of financial and non-financial rewards and comparison is made on the effect of these rewards in relation to employees' motivation in an organization. By understanding the nature of these two types of reward and their consequences on motivation, managers can make good decisions in motivating employees in their organization. 2.

Definitions 2. 1 Financial Incentives Money is the most powerful and influential incentive in the society and always used to motivate employees in organizations. According to Llewellyn, Eden and Lay (1999), financial incentives may take in the form of direct monetary gain such as personal income and income to spend. Mathauer and Imhoff (2006) also agreed that financial incentive is a transfer of monetary values or equivalents such as allowances, salary increases and bonuses. They also included the basic salary, allowance scheme, health insurance premiums and housing allowance as the financial incentives. 2. 2 Non-Financial Incentives Non-

financial incentives are the ones that involve no direct transfers of monetary values or equivalents such as holidays, token awards or recreational activities and recognition from superior (Mathauer and Imhoff, 2006).

Llewellyn, Eden and Lay (1999), in their study on incentives in health care industries defined non-financial incentives or they call it as professional incentives are status , congeniality of work, career progression and health care benefits offered to employees. Manolopoulos (2008) stated that there are two types of motivators (incentives) that will influence employees' motivation at work: extrinsic and intrinsic. Non-financial incentives or

intrinsic motivation are the factors such as opportunities for creativity, opportunity to use initiatives and the perception of work importance in the outside world. In other words, intrinsic or non-financial incentives are the ones that are not involving money and it is about the job itself that motivates people to work. The example of non-financial motivations or incentives, as mentioned by Woodruffe (2006) are: - - - - - Advancement Autonomy Civilised treatment Employer commitment Environment Exposure to senior people Praise is awarded when praise is due Support is available The feeling of being trusted The feeling of working for good and reliable organization

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Research 329 ijcrb. webs. com INTERDISCIPLINARY JOURNAL OF
CONTEMPORARY RESEARCH IN BUSINESS - The feeling of working on useful
assignments 2. 3 Motivation AUGUST 2011 VOL 3, NO 4 “ Motivation is what
moves us from boredom to interest" (Islam and Ismail, 2008). According to
them, the word motivation comes from the word “ movere" which means to
move. Bartol and Martin (1998) defined motivation as a force that energize
behavior, direct someone’s behavior and underlines the tendency to persist.
Motivation is as important aspect of leading function of a manager. In order
to lead employees to work, managers must be able to motivate them.
Robbins and Judge (2009) in the book “ Organizational Behavior" defined
motivation as “ the processes that account for an individual’s intensity,
direction, and persistence of effort toward any goal" (in this context it refers
to an organizational goal). 3. The Impact of Financial Incentives on
Motivation Does money motivate? Definitely the answer would be “ yes" to

most of us. Money is the best motivator as said by Frederick Taylor in his theory. Money, or also called as the financial incentive is the strongest influence in motivating employees at work. Money helps employees to survive and thus making it as the main aim for people to work. " Pay is not a motivator. " Surprisingly that was the declaration made by Edward Deming. Definitely money buys the things people want, but is not the one that make people motivated to work. There is no support that says paying people more will encourage them to do better work, especially in the long run. Often studies have found that money and performance or motivation only have slight correlations. In other words, higher pay does not produce better performance (Kohn, 1993). This is supported by Turner (2006) that the use of financial incentives did not produce any improvement in employees' performance. Turner (2006) in his study on factory workers found that the relationship between financial incentives and performance was not significant, however when the same study was conducted on service businesses, the finding turned out to be significant and positive. Darmon (1974) in his study on salesmen has provided evidence that financial incentives do have some effect on human behavior. Kontodimopoulos, Paleologou and Niakas (2009) focused on health care professionals to examine their motivating factors; financial or non-financial incentives. They found that remuneration, which is the financial incentive, was the strongest motivating factor, but only to professionals in managerial positions. However, extreme focus on financial incentives in public sector could make employees think that money is more important than others, and only work to get money. Manolopoulos (2008) in his study focusing on public sector in

Greek, comparing extrinsic reward (money) and intrinsic reward (praise) found that extrinsic ones were more motivating than intrinsic rewards. Employees don't think what is important in their work, but what is important to make them work, and money answers all. A research conducted in 1992 where employees were asked to rank the factors that motivate them the most revealed that money was the best motivating factor (Islam and Ismail, 2008), contradict with the survey results in 1946, 1980, 1986 and 1992, where money became the fifth important factor to motivate employees. 4.

The Impact of Non-Financial Incentives on Motivation

It is very clear that money or financial incentives have a significant impact on employees' motivation. It is a wonder whether non-financial incentives would have the same impact on employees' motivation as the financial incentives. Lord (2002) in his study on motivation of workers found that the main motivators are accomplishment, job responsibility, recognition, etc. and these motivators improve job satisfaction and increase productivity. COPY RIGHT © 2011 Institute of Interdisciplinary Business Research 330 ijcrb. webs. com VOL 3, NO 4 This is supported by Mani (2002) who said that good pay and recognition are the strongest motivators compared to benefits, working environment and co-workers, while Lee (1997) who has done a research on motivating factors influencing female entrepreneurs found that achievement, affiliation, autonomy and dominance have a great influence on their motivation. Darling, Arm and Gatlin (1997) said " At one time, money was considered the best employee motivation technique. But today, the use of money as motivation has several strikes against it. The impact of a monetary reward is often short-lived. Non-cash rewards of high intrinsic recognition

value — such as merchandise credits or time off — often work better. When given a cash incentive, an employee may spend the money on groceries or the electric bill. If merchandise is offered, however, employees will constantly be reminded of the incentive each time they look at the gift. " Even though many researchers have found that money of financial incentive is the most influential motivator in motivating employees, the influence of non-financial incentives cannot be denied. Supporting the above literatures, Mathauer and Imhoff (2006) stated that non-financial incentives such as a more conducive working environment, recognition, appreciation and feedback contributed to workers' motivation. Other than that, good working relationship with superiors and colleagues are also the determinants of motivation. Cameron and Pierce (1997) investigated on the effect of types of rewards namely verbal rewards such as praise and feedback and tangible rewards such as money on motivation and concluded that verbal rewards whereby superiors praising employees for their good work can enhance motivation. Not only verbal rewards, tangible rewards also enhance motivation. Lanchance (2000) said that people stay at work for many other reasons, not just for money. Acknowledgment from managers or " recognition" works better than money as it is a means to show managers are paying attention to employees and giving direction to what they do. By " recognising" accomplishments, it will boost up employees' spirit and enthusiasm. Fagbenle, Adeyemi, and Adesanya (2004) in their study on the impact of non-financial incentive on bricklayers' productivity in Nigeria have come out with conclusions that non-financial incentives are more preferred in motivating these employees than financial incentives as it increases the

productivity. 5. The Effectiveness of Financial and Non-Financial Incentives In most situations, organizations use financial incentives as the way to motivate their employees. Just give them money and they are willing to do anything. Most managers believe that money is the most efficient way to make people work, but the question is, how long will the motivation last? Kohn (1993) pointed out that money only produce temporary compliance and is not effective in shaping employees behaviour to last for a longer time. In other words, employees, when given money, will only show positive attitude for a short time. According to him, money or reward, will make people seek for more reward in future. In his article " Why incentive plan cannot work", Kohn (1993) stated that " rewards (money) succeed at securing one thing only: temporary compliance. When it comes to producing lasting change in attitudes and behaviour, however, rewards, like punishment, are strikingly ineffective. Once the rewards run out, people revert to their old behaviour. " He further expressed that incentives (money) or extrinsic motivator does not change our attitudes, it only changes what we do. Darling, Arm and Gatlin (1997) write " At one time, money was considered the best employee motivation technique. But today, the use of money as motivation has several strikes against it. The impact of a monetary reward is often short-lived. Non-cash rewards of high intrinsic recognition value — such as merchandise credits or time off — often work better. When given a cash incentive, an employee may spend the money on groceries or the electric bill. If merchandise is offered, however, employees will constantly be reminded of the incentive each time they look at the gift. " It is true that when money runs out, employees forget that they have received it

and will look for some more. Sullivan (2000) agreed when he said if money is given, it will only last for 12 to 15 minutes. The money will be kept in the wallet and then disappeared. INTERDISCIPLINARY JOURNAL OF CONTEMPORARY RESEARCH IN BUSINESS AUGUST 2011 COPY RIGHT © 2011 Institute of Interdisciplinary Business Research 331 ijcrb. webs. com VOL 3, NO 4 However, this finding contradicts with Vroom (1964) in his famous theory called as the expectancy theory which suggested that money will motivate to the extent where is it able to satisfy employees' personal goals. This means that money is effective in longer term until the goal is satisfied. What about non-financial incentives? Is it the best way to motivate employees since money is not the best way? Darling, Arm and Gatlin (1997) have highlighted that non-cash rewards such as praise, recognition from superiors are much better where it has psychological value that makes employees being remembered of it. Recognition and praise give intrinsic meaning to employees where they feel appreciated and valued and will definitely last for a longer time. 6. Conclusion Employees' motivation is a serious issue managers must focus on. Employees with low levels of motivation will make it hard for the organization to achieve its long term goal. To motivate employees is not an easy task for managers. They need to identify what factors motivate employees the most. Employees are individuals who are different in their characters. Due to this, they perceive differently. Money was believed to have a significant impact on employees' motivation at work. Vroom (1974) expressed that money will make people work in order to satisfy their personal goals. Darling, Arm and Gatlin (1997) agreed that money has its own influence; however this impact is only

temporary. People who are given money will work hard to get the money. When they run out of money, old behaviour will be back into their working life. This paper tries to examine the impact of two types of incentives, namely financial and non-financial incentives, in motivating employees. Most of the researches agreed that financial incentives or money motivate, but only in short period of time. The best way to motivate employees is to use non-financial incentives such as praise and recognition where it is believed to have a significant intrinsic value to the employees. Managers out there may have to look at this as the important issue in motivating their employees as money is not the most important thing in employees' life anymore. They need to be concern on employees feeling as this is the best way to make employees feel appreciated and motivated.

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