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Non- Financial Reward Management And Performance In Organizations: A Theoretical Analysis

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Abstract

This paper examined Non – Financial Reward Management and Performance in Organizations: A Theoretical Analysis. The paper analyzed reward management; financial and non-financial rewards, John Stacy Adams Equity Theory of Motivation, the relationship between non – financial rewards and performance, challenges/ potential pitfalls of using non-financial rewards in organizations and thus offers a number of positive results/benefit as well as the challenges which non – financial rewards bequeath/pose to organizations. The use of non – financial rewards in organizations achieves more than higher productivity and efficiency of employees, but also contributes to work motivation by motivating most workers more than extrinsic rewards- it also contributes in terms of being a powerful retention strategy for any organization, increased job satisfaction, increase in the organizations reputation, more energy and team spirit in the workplace and also makes the organization more attractive to potential new recruits. Awareness of the challenges inherent in the use of non – financial rewards in organizations, in addition with the potential benefits can hopefully permit us to understand better how to motivate workers cum boost their performance in organizations.

1.1. Background of the Study

Markova and ford (2011) are of the view that the real success of companies originate from employees willingness to use their creativity, abilities and know-how in favour of the company

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and it is the organizations task to encourage and nourish these positive employee inputs by putting effective reward practices in place.

In view of this, paying employees for productivity has been the cornerstone of industrial and business development for centuries. Financial reward has always been important in managing employee's performance, but over the last twenty five (25) years other elements of compensation have developed to provide employees with more scope to reward, and thus, motivate employees (Murphy, 2015). Reward Management (i.e including financial and non – financial reward management) influences performance by recognizing and rewarding good performance and by providing incentives to improve it.

Reward is clearly central to the employment relationship. While there are plenty of people who enjoy working and who claim they would not stop working even if they were to win a big cash prize in a lottery, most of us work in large part because it is our only means of earning the money we need to sustain us and our families. How much we are paid and in what form is therefore an issue which matters highly to us (Torrington, et al., 2011).

The rewards that we apply to both individual and team performance are therefore critical in determining how effective our reward strategy will be. Wilson (2003) describes rewards and their purpose as including systems, programmes and practices that influence the action of people. The purpose of reward systems is to provide a systematic way to deliver positive consequences. Thus, the fundamental purpose is to provide positive consequences for contributions to desired performance.

Harunavamide and Kanengoni (2013) investigated the impact of monetary and non-monetary reward on motivation. They found a moderate significant relationship between non-monetary reward and employee motivation, and no significant relationship between monetary reward and motivation of workers. To Tumwet (2013) among the non – financial incentives with significant influence on performance were; opportunity for personal development, autonomy and responsibility, teamwork, job security, professionally stimulating environment, opportunity to set performance goals, predictable work life, opportunity to lead, training and development and flexible policies.

Nevertheless, reward management is both complex and problematic and very susceptible to outside influences such as economic environments culture and individual employee preferences and perceptions. What is applicable, effective and performance enhancing for one employee or team may not have the same effect on other employee's in similar circumstances (Murphy, 2015). It is therefore against this background, that this paper examines non – financial reward management and performance in organizations: A Theoretical Analysis.

1.2. Statement of the Problem

Companies are spending huge amounts of money on their reward programmes which aim to motivate, retain, commit and attract new employees. Despite the great amount of money used in this reward practices only few of the human resource managers are able to justify and measure whether the reward practices in use are efficient and resulting in the outcomes which the reward programs try to aim (Armstrong, Brown and Reilly, 2010). Brown (2008) criticized the most commonly used reward practices in organizations: "- very few organizations seem to have any concrete evidence to evaluate or justify their reward practices". He also concluded that many of the practices in companies are in use because the companies simply lack the correct information, resources or measurement tools to evaluate whether their reward practices are efficient or not.

Moreover, studies have found that people in organizations are motivated by monetary and non-monetary rewards. For example, studies of Schule and Jackson (1996), 'mechany and Lederer (2006) and Bresnen and Marshall (2000) explained that total remuneration consist of financial rewards (Fixed and variable) and non – financial rewards (Praise, achievement, recognition, responsibility, freedom, job security and personal growth, etc), i.e., extrinsic and intrinsic rewards. The fact is that every employee has their individual set of motivation and incentives to expend effort. Some are motivated by money, while others are motivated by recognition, career advancement or even by job security. Tumwet (2013) contend that non- financial reward represented by opportunity for personal development, autonomy and responsibility, teamwork, job security, professionally stimulating environment, opportunity to set performance goals, predictable work life, opportunity to lead, training and development, and flexible policies; have be found to be an effective tool in motivating workers and consequently increase their performance. The inherent problem lies on the fact that the effect of non – financial rewards on performance is environment specific; i.e., reward management (financial and non-financial reward management) and performance is both complex and problematic and very susceptible to outside influences such as economic environments, culture and individual employee preferences and perceptions. What is applicable, effective and performance enhancing for one employee or team may not have the same effect on other employees in similar circumstances (Murphy, 2015)

2.0. Conceptual Framework

2.1. Reward Management/ Financial and Non- Financial Rewards

Reward management entails the processes concerned with the design, implementation and maintenance of reward systems that are geared to the improvement of organizational, team and individual performance (Armstrong, 2009). Mahaney and Laderer (2006); Bresnen and Marshall (2000); and Deci, Koestner and Ryan (1999) recognize reward to be either of extrinsic (financial) or intrinsic (non –financial) nature.

Extrinsic/Financial rewards are tangible, such as salary or bonuses. Shanks (2007) notes that extrinsic rewards are a host of external things that managers can provide that may serve as incentives for employees to increase productivity. These include; money, benefits, bonuses, promotions, etc.

Intrinsic/ Non- Financial rewards are those existing in the job itself, for instance interesting and challenging work, autonomy, responsibility, recognition. Malhotia, et al (2007) argue that intrinsic rewards are inherent in the content of the job itself and include motivational characteristics such as skill variety, autonomy and feed back as well as employee participation in decision making and role clarity. Intrinsic rewards also include; skills/knowledge development, awards, praise and other forms of recognition.

In view of this, intrinsic rewards are the job inherent, intangible, non – financial rewards included in the job itself such as job tasks, challenging and interesting jobs and training possibilities offered to the employees. To Tumwet (2013), among the intrinsic rewards or rather non-financial rewards with significant influence on performance were; opportunity for personal development, autonomy and responsibility, teamwork, job security, professionally stimulating environments, opportunity to set performance goals, predictable work life, opportunity to lead, training and development and flexible policies.

Nelson (2004) noted that praise and recognition are the most efficient intrinsic rewards an employee wants to have as employees want to feel that they are making a contribution at their workplaces. Quoting Elisabeth Kanter on his article who said that “Compensation is a right; recognition is a gift”. Nelson (2004) is also of the view that recognition, especially if showed in the public in front of the other employees sends favourable signals to the other employees of which kind of behaviour is favoured and desirable by the management.

2.2. Theoretical Framework

2.2.1. John Stacy Adams Equity Theory of Motivation

This work/ papers is anchored on John Stacy Adams Equity Theory of job/work motivation developed in 1963. According to the equity theory, people develop beliefs about the fairness of the rewards they receive relative to their contributions.

Equity theory proposes that people's perceptions of fairness depend on their personal assessment of inputs and outputs/outcomes. Inputs are contribution such as effort, education and special skills, i.e., what we give or put into the organization. Outputs/outcomes are rewards such as recognition, promotions, and pay, i.e. everything that we take out in return from the organization. Employees have a general expectation that the outcomes or rewards they receive will be proportionate to the inputs they provide. People make this judgment not in absolute sense, but by using others as a reference point. A comparison person may be a coworker inside the firm or a friend who works for a different company/organization. The relationship is summarized in the ratio:

$$\frac{\text{Personal outcomes}}{\text{Inputs}} \text{ \textit{versus} } \frac{\text{others' outcomes}}{\text{Inputs}}$$

Fairness is achieved when the ratios are equivalent. Ratios that are not equivalent produce a psychological state called cognitive dissonance/equity tension, which creates satisfaction/dissatisfaction and results in attempts to bring the ratios back into balance. In other words, the theory states that when people perceive unequal situation, they experience 'equity tension', which they attempt to reduce by appropriate behaviour. This behaviour may be to act positively to improve their performance and/or to seek improved rewards, or may be to act negatively by, for example, working more slowly (Taylor-type soldering), absenteeism, coming late to work; on the grounds of being under rated or under paid.

Nevertheless, what Adams wanted to let managers be aware of is that pay and conditions do not alone determine motivation of individuals, what is needed is a balance, a balance between what employees put into the job and what they want to get out of the job. But of course for different individuals and different jobs, what do we describe as the fair balance? The equity theory helps us figure out the fair balance/ratio. Thus, what is known to constitute a fair balance/ ratio would depend on comparing our own situation to that of other referents in the same market, i.e., within the organization or outside the organization.

2.2.2. Performance

High performance amounts to achievement of organizational goals. Thus, job performance is the set of employees' behaviours that contribute in organizational goal accomplishment (Brumback, 2010). Thus, performance in the context of this paper includes the non –financial measures of performance like employee commitment and retention, increased organizational reputation, making the organization more attractive to potential new recruits, etc.

2.3. Challenges and Potential Pitfalls of using non – Financial Rewards

2.3.1. Tax and Small Print

One potential challenge/pitfall when implementing non-financial rewards (say recognition) is that some schemes can be damaged by not thinking through the implications. This can happen in two ways: ***First:*** the government classes vouchers and other non financial awards as taxable benefits. Therefore, it is important for organizations to ensure that the value of their award to the individual is not reduced, through subsequent taxation. It is essential that organizations cover the tax and National insurance contributions required. ***Second:*** if the scheme is structured in such a way that it costs employees time or money to take advantage of their award, for example, if they need to travel a long distance to redeem their vouchers, the award may lose its appeal.

2.3.2. Fraudulent Nominations

Many non- financial rewards including recognition schemes, especially those which involve nominations are dependent on the honesty of employees and their managers. There is always a chance that some employees may conspire to fraudulently win awards. It is sensible for organizations to have some process in place by which nominations are substantiated. Many schemes therefore check the validity of nominations before they are given to the judges to be considered for an award. One way of doing this is to have the nomination authorized and signed by line managers before being passed to the judging panel.

2.3.3. Economic Situation

Tahmincioglu (2004) also contends that the external economic environment can impact on the effectiveness of non-financial; reward/recognition schemes. For example, in a time of downsizing and restructuring, non-financial reward/recognition may not be effective in motivating employees. When a situation like this arises, such schemes can appear to employees to be empty attempts to appease employees and could potentially backfire.

2.4. Empirical Review

Finding the right blend of tangible and intangible rewards to adequately motivate and retain your employees is a difficult task. Armstrong (1988) in his study found that motivation at work operates in two ways. ***First:*** people can motivate themselves by doing work that intrinsically motivates them which makes them expect that their goals will be achieved. ***Secondly***: management can provide motivational package through such methods as pay and bonus schemes. The former he termed intrinsic motivation, while the latter he termed extrinsic motivation. Intrinsic motivation concerns self-generated factors which influence people to act in a certain way. Extrinsic Motivation, on the other hand, is concerned with what is done to or for people to motivate them. These include rewards such as increased pay and bonus schemes.

Harunavamwe and Kanengoni (2013) investigated the impact of monetary and non-monetary rewards on motivation. They found a moderate significant relationship between non –monetary reward and employee motivation and no significant relationship between monetary reward and motivation of workers. Okwudili (2015) also carried out a study on the effect of non monetary reward on productivity of employees among selected government parastatals in Abia state. The study concluded that higher productivity and efficiency of employees in government parastatals are possible with the effective exploitation of human resource through non-monetary rewards implementation.

Ghanzanfar, Chuanmin, Khan and Bashir (2011) further found that benefits do not have a significant impact on work motivation; and from their study they concluded that intrinsic reward tends to motivate workers more than extrinsic rewards. To Tumwet (2013) among the non-financial incentives with significant influence on performance were; opportunity for personal development, autonomy and responsibility, teamwork, job security, professionally stimulating environment, opportunity to set performance goals, predictable work life, opportunity to lead, training and development and flexible policies. Aktar, Shaheed, Sahabaddin and Aktar (2012) conclude that non – monetary incentives which are represented by recognition, learning opportunities, challenging work and career advancement, have been found to be an effective tool in motivating workers, and consequently increasing their performance. Maison (2001) found that recognition in various forms is a powerful motivational and retention strategy for any organization; arguing that recognition does not cost a lot to organizations if well implemented. Davidson (2009) found that connection between rewards, recognition and motivation of employees is strategically significant to organizational success. Dzuaranin (2012) infers that companies that only focus on monetary incentives to motivate their employees must also introduce non- monetary rewards to their performance reward programs to increase staff motivation since many people prefer the former to the later. The study concludes that organizations that implement effective reward programs achieve their organizational objectives.

Moreover, Luthans (2000) highlights two types of rewards which are financial (extrinsic) and non-financial (intrinsic) reward; and both are utilized positively to enhance employees performance. Ahmed and Ali (2008) confirm that there is a statistically significant relationship between reward and recognition respectively, also motivation and satisfaction, and hence productivity. In addition, Axelsson and Bokedal (2009) did a study on rewards – motivating different generations at Volvo Car Corporation. Major findings showed that challenging work and non-monetary rewards motivate managers, bonuses and shares are not very motivating.

Furthermore, in their research on how reward strategy affects performance in the Malaysian insurance industry, Tze San, et al; (2012) found that although financial and objective measures are central in designing reward systems, when they incorporated non –financial rewards into the reward system, there is an increase in financial and non – financial aspects of performance. They believed this leads to an increase in the organization's reputation, more energy and team spirit in the work place and made the organization more attractive to potential new recruits. Hall – Ellis (2014) in his study on how rewards systems can promote high performance work teams within a library environment, the researcher found that development and recognition is a shared responsibility between employee and management. So, we must establish a clear connection between behaviour and performance on one side and rewards on the other. Employee expected compensation and benefits as normal parts of their rewards for working, but performance can be increased by adding these typical rewards with recognition of achievements in front of peers, "employee of the month", message on library internet or social media and appreciation (handwritten note from manager, lunch with manager, recognition meal event etc).

3.0. Conclusion

This paper has reviewed non-financial reward management and performance in organizations: A Theoretical Analysis, and offered a number of positive results/benefits as well as the challenges which the use of non-financial rewards may bequeath/pose on organizations. The use of non-financial rewards in organizations will achieve more than higher productivity and efficiency of employees, but also contributes to work motivation by motivating most workers more than extrinsic rewards. Its contributions are also in terms of being a powerful retention strategy for any organization, increased job satisfaction, increase in the organization's reputation, more energy and team spirit in the work place and also makes the organization more attractive to potential new recruits.

Moreover, non – financial reward management offers a number of challenges to organizations which include; the classification by government of non-financial awards as taxable benefits, fraudulent nominations to the awards, and in a time of downsizing and restructuring, non – financial rewards may not be effective in motivating employees (i.e the external environment impacting negatively on the effectiveness of non – financial rewards.

4.0. Recommendations

Having reviewed non-financial reward management and performance in organizations: A Theoretical Analysis, the following recommendations if carefully applied should help improve and enhance the process:

1. Managements' of organizations should endeavour to ensure that the value of their award to the individual is not reduced through subsequent taxation. Thus, it is essential that organizations cover the Tax and National Insurance Contributions required
2. Organizations and their managements' should have some process in place by which nominations to award/recognition programmes are substantiated in order to eliminate

fraudulent nominations. In this way, the validity of the nominations are checked before they are given to the judges to be considered.

3. Managements' of organizations should endeavour to minimize the impact of the external economic environment on the effectiveness of non-financial rewards; thereby making it effective in motivating employees.

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