

Effects of Monetary and Non-Monetary Incentives on Employee's Performance

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ABSTRACT

This paper first focuses on the distinction between monetary and non-monetary incentives, and examine whether incentives enhance employee's performance and identify the most effective incentive to motivate and improve employee's performance. Before discussing the awards and perks offered to employees by companies, it is necessary to understand the importance of motivation in the workplace. Employee motivation is a major factor in organizational growth. Managers at all organizational levels concentrate on employee motivation through a variety of rewarding strategies, including monetary and non-monetary rewards. Monetary incentives are easy to understand and consist of measurable financial benefits. Non-monetary incentives may take the shape of material gifts or opportunities that may also have some monetary value. In addition, incentive programs are a key component of improving staff productivity. According to data, incentives are valuable since they can encourage up to 66% of employees to stay at their firm and boost employee performance by 44%.

Keywords: monetary incentive, non-monetary incentive, employee performance, financial, motivation, rewards, organization, job satisfaction

I. INTRODUCTION

Understanding incentives is the first step towards recognising how incentives affect employee performance. Incentives are benefits provided to employees to inspire them to perform more effectively. These concepts of "reward", "recognition" and "incentive" are key motivators and apply to all industries, whether in a production or service-oriented organisation or banking. It can boost productivity and encourage workers to give their best by putting in more effort and producing work with better accuracy. There are two chief categories of incentives: monetary incentives, involving cash prizes given to individuals based on performance evaluations, and non-monetary incentives, including integrating into a vibrant community, providing flexible work schedules, paid leave, health insurance, etc. Supervisors are always looking for methods to foster an atmosphere that inspires employees, to perform their best in order to achieve organisational goals. The greatest asset of a firm is its workforce.

Workers are the brand ambassador of the company and play a vital role in all areas of its operations and profitability. When rewards are offered, employees are more likely to remain loyal with the company because they want to feel appreciated and rewarded for their achievements.

II. LITERATURE REVIEW

The bond between employers and employees are essential and important. The foundation of this relationship is the employer's respect for employees, which is a major source of motivation for them. Employers must respect employees in various ways, such as symbolic awards, after monitoring the employee's performance (Waqas & Saleem, 2014). To show their gratitude and concern for their employees, organizations invest in both monetary and non-monetary incentives. Like other investments, returns from these investments are frequently used to evaluate the success of these initiatives (White & Bryson, 2013). Employee happiness and company success depends on both monetary and non-monetary incentives, but achieving a good balance between the two may be challenging. Both alternatives are popular with both employers and employees and can theoretically influence the hiring and retention of employees (Chaudhary & Ghosh, 2017). The executives of the company should recognize the impact that incentives have on employee engagement and inspiration. According to a study, incentive programmes can boost employee enthusiasm by 85 percent and boost company's total revenue by \$104,000 per week (Tiwari, 2020).

III. OBJECTIVES OF THE STUDY

The research presented in this paper will help readers to understand how monetary and non-monetary incentives affect and enhance performance of employees. The objectives of the planned study are as follows:

- To determine the distinction between monetary and non-monetary incentives.
- To determine which incentive best inspires and evaluates employee’s performance.
- To determine the significance and effectiveness of incentives on the performance of employees.

IV. RESEARCH METHODOLOGY

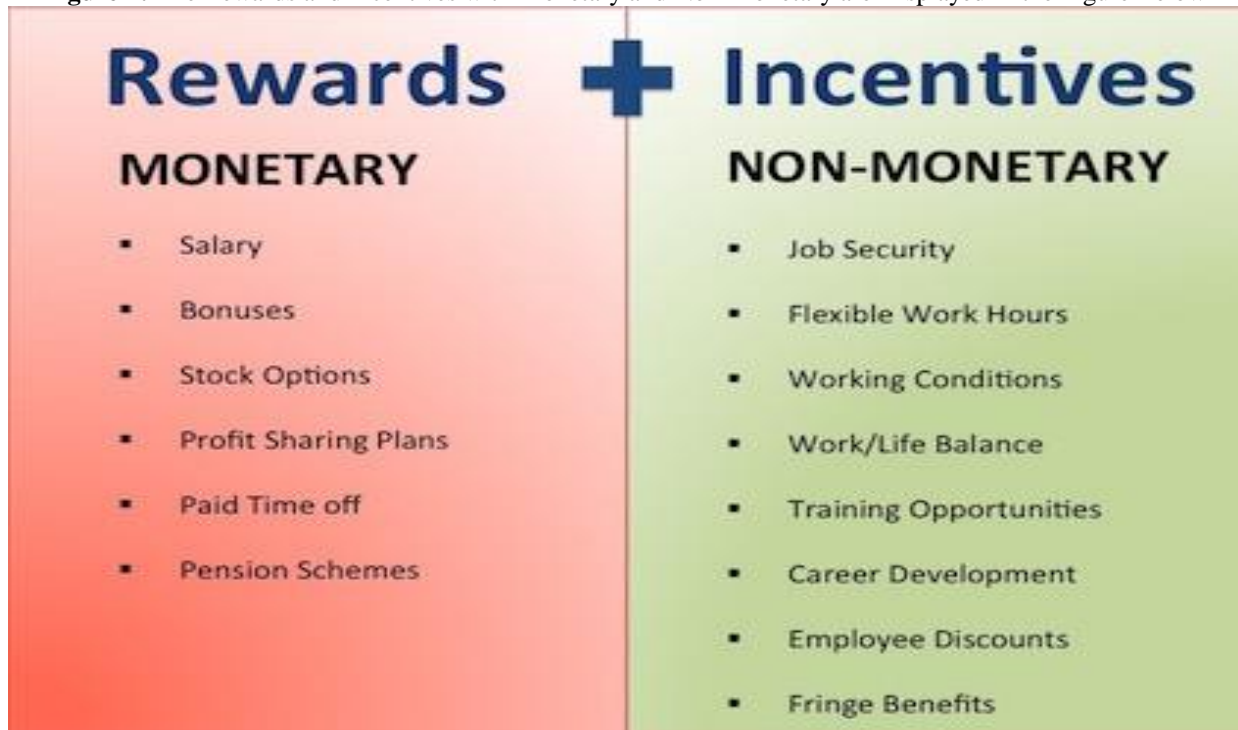
Secondary data are the main information source used in this study. The above-mentioned goals have guided the collection of secondary data from many websites, journals, reference books, etc

V. RESULTS & DISCUSSION

5.1 Monetary Incentives and Non-Monetary Incentives: What are they?

Employers generally utilise monetary incentives to encourage employees to achieve their goals that give them immediate satisfaction. Cash or presents with a fixed monetary worth, that can be deposited in their bank accounts or liquidated later, are considered monetary rewards or incentives. Stock options, dividends, wage hikes and bonuses are a few other forms of monetary incentives. Monetary incentives and bonuses are regarded as “supplementary salaries,” which denotes that they don’t originate from an employee’s monthly pay check. In law, employees are obliged by the IRS to pay taxes on all monetary bonuses, incentives, commissions, or gratuities paid. According to a study by Genesis Associates, 85% of workers admitted that monetary incentives fuelled their motivation.

Figure 1: The Rewards and Incentives with Monetary and Non-Monetary are Displayed in the Figure Below



Source: Frosina, M. (2016, November 21). Rewards and Incentives with getWaiter! getWaiter! Blog

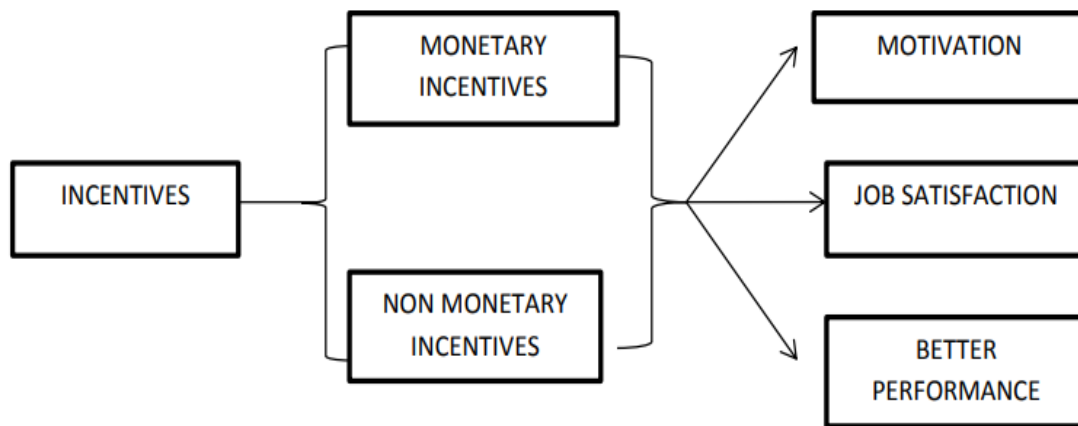
Incentives without money are known as non-monetary incentives. It consists of gratitude, honour, acknowledgement and praise. They serve as a means of rewarding employees beyond standard perks and monetary remuneration. Non-monetary rewards are granted to achieve specific objectives that benefit the business, such as hitting sales targets, finishing professional training, earning certificates and executing productive research projects and so on. The most effective and powerful method to

express gratitude, strengthen employee retention and inspire the workforce is through non-monetary incentives. Examples of non-monetary rewards include community services, social advantages, job progression, career development, personal growth and external non-cash rewards. In addition, there are amusing items like food, merchandise, gift cards and business swag (t-shirts, backpacks, hats, etc.). However, according to a recent survey of non-monetary incentives for remote workers, 65% of employees prefer non-cash incentives over fiscal incentives.

5.2 Employee Performance and the Connection between Monetary Incentives and Non-Monetary Incentives

Incentives are a key factor in deciding outstanding performance at work and have a good relationship with the motivating process. It may take the shape of rewards, recognitions, flexible work schedules, financial or non-financial incentive, job stability, etc. When it comes to incentives, managers and HR staff often encounter this issue. Despite the size or sector of the business, productive and dedicated workers are essential to the success of the organisation. Maintaining a large workforce and creating a team environment aimed at achieving common objectives are crucial. Aside from perks, management and HR departments provide and create monetary and non-monetary incentive programmes to acknowledge the achievements of employees and motivate them to surpass their objectives. According to the fundamental “law of behaviour”, greater incentives often lead to greater productivity and dedication. While setting performance targets for your staff, think about giving their efforts and hard work a “value” to inspire them to achieve that goal effectively. You can motivate staff members to go beyond by supporting them in setting personal objectives that align with the common values of your company.

Figure 2: The Relationship between Incentives and Performance of Employees is Depicted in the Figure Below



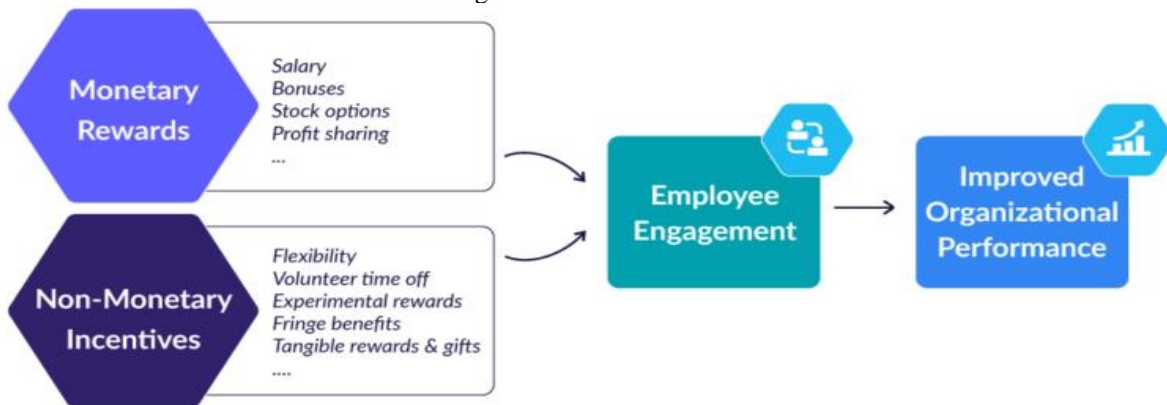
Source: Chaudhary, A. K., & Ghosh, S. (2017, July). Monetary and non monetary incentives in LIC of India and its impact – a case study of Ranchi District. Journal of Management Research and Analysis

Others argue that there are no concrete evidence that monetary and non-monetary rewards relates to the performance of employees, but the truth is that these forms of compensation have transcend the fads and remain in force. Based on the principle of reinforcement, people tend to repeat their behaviours or activity when they get favourable outcomes on their behaviours. Therefore, when employees receive a reward from their company, they are more likely to maintain clear and realistic long-term goals.

5.3 How Incentives Affect the Performance of Employees?

All over the world, organisations understand the value of incentives; the current incentives market is estimated to be more than \$100 billion, of which \$46 billion is related to non-cash incentives. Companies using employee incentive programs reports a success rate of 79% in achieving their targets when rewards are provided. According to Harvard Business Review, managers who identified their employees’ talents saw a boost in profits by 14%-29% and happier employees. In Addition, a McKinsey study found that providing social recognition could increase employee engagement by 55%.

Figure 3: The Figure below Illustrates How Incentives and Rewards Can Affect Employee Engagement and Improve Organisational Performance



Source: Verlinden, N. (2021, October 27). 11 Top Non-Monetary Incentives to Reward Your Employees. AIHR Academy to Innovate

The International Society for Performance Improvement (ISPI) discovered in a meta-analysis in 2010 that well-designed incentive programs can boost performance by 25-44%. Participants are interested in these incentive programmes because they boost enthusiasm for their jobs and improves performance. Numerous studies have demonstrated that, when a programme is initially implemented, employees' performance rises by 15% and, when employees are given incentives to work towards a specific objective, their performance rises by 27%. These initiatives aim to attract top talents and simultaneously improving the performance of current staff members. Higher incentives can enable greater performance. Such rewards serve as small rungs of a ladder that leads to a more effective and wholesome workplaces.

5.4 Which Type of Incentives Encourages and Increases Employee Performance: Monetary or Non-Monetary Incentives?

Companies must consider the firms unique objectives, employees' preferences, and business characteristics when deciding between monetary and non-monetary schemes. Non-monetary incentives support an advantageous workplace culture and long-term employees' engagement, whereas monetary incentives provide immediate cash benefits and competition. The fact that monetary incentives are the most effective type of positive reinforcement for inspiring workers to perform at the highest level under all conditions. It is possible to change the attitude of the employees and create a happy workplace, because money serves as one of the greatest motivators. Financial incentives can aid in hiring and rewarding staff. But they fail to fix enduring problems, and they could even harm your business culture. Non-monetary benefits, on the contrary, play a crucial role in motivating employees. These non-monetary benefits have a significant effect on the staff's general productivity and mindset

They have the power to improve employee performance and attitudes. Leaders and managers have long utilised financial rewards to motivate high-performance employees; yet, their impact is not always as strong as it might be. Thus, numerous businesses rely on non-cash rewards. While designing an incentive system to attract workers, executives and proprietors must realize that incentives or rewards are just bonuses that help workers to meet targets without sacrificing quality. It does not guarantee loyalty or high-quality work. Due to the demand and choices of different employees, balanced strategies combining the two forms of incentives often generate the greatest outcomes. In the end, the secret to great incentive programme is to know your staff and to design strategies that optimise their enthusiasm and output.

VI. CONCLUSION

Based on the kind of incentive, monetary and non-monetary rewards have different functions, efficacy, and appropriateness. Both monetary and non-monetary incentives have a considerable beneficial impact on the performance of employees. Since human brain requires encouragement, administration must keep showing its appreciation for workers with both monetary and non-monetary benefits. Overall, the findings demonstrated that giving more financial and non-financial incentives to public employees can enhance their job performance and boost output. But certain limits have also been identified from this investigation. The majority of this subject is focused on human conduct, which is not always simple or straightforward to comprehend. A worker can be influenced by financial rewards, while another worker can be influenced by non-financial rewards. Therefore, in order to meet the various requirements and preferences of employees, it is necessary to strike a balance between monetary and non-monetary incentives. An easy activity for assessing incentive schemes is the

creation of a balance sheet. List all incentive schemes of your organisation, both monetary and non-monetary, on one side of the balance sheet, and all the results – desirable or not – with which these incentives may be linked to the other. The unsatisfactory results will be the areas that need to be improved.

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