Journal of Management Matters

Journal homepage: www.rjt.ac.lk/mgt

Faculty of Management Studies, Rajarata University of Sri Lanka

The effect of monetary and non-monetary rewards on employee motivation: A review

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Abstract

The success of any facet of the business can almost be traced to motivate employees. This is especially true and important in today's turbulent and often chaotic environment where commercial success depends on employees using their full talents. The ability to attract, retain and develop talented employees is a key feature of a successful business. But this is not always easy because people are all different with different needs, interests, goals and thoughts and therefore would be motivated by different things. Sometimes employees even have goals that conflict with the organization's objectives. Therefore, monetary and non-monetary rewards are frequently suggested as methods for enhancing the motivation and performance of employees and to align the employees' objectives with the organizations. The objective of this paper is to review the literature relating the effect of monetary and non-monetary rewards on employee motivation. The review confirms the positive effect of monetary and non-monetary rewards on employee motivation. Moreover, it reveals that non-monetary rewards are more effective in the organizations where the employees are paid comparable salaries to compensate for their desire for monetary incentives at the work place. This means that non-monetary rewards would not be effective in a situation where the employees are struggling to fulfill their physiological needs as these are the most basic requirement of the employees. But monetary rewards are the fundamental component in employee motivation and it has the unique power to motivate employees by satisfying different kinds of needs without any support of other rewards. Therefore, the organizations have to focus on both of the monetary and non-monetary rewards and employ method/s appropriately in order to motivate and retain their employees and in turn to maximize the organizational performance.

Keywords: *Employee motivation, monetary rewards, non-monetary rewards.*

1. Introduction

The current business era is highly dynamic and competitive. It is widely accepted by the organizational theorists that manpower is one of the most important assets of an organization because things are getting done through employees. In other words, the success of an organization in realizing its objectives heavily depends on the performance of its employees. Therefore, it is important to focus on the factors affecting the performance of the employees and organizations develop different type of strategies to achieve competitive advantage over competitors in order to ensure their high organizational performance and long-term sustainability in the industry. According to Bateman and Snell (2007), the fundamental success drivers for competitive advantage for businesses are innovation, quality, and cost competitiveness. None of the above-mentioned success drivers can be successfully addressed and implemented, respectively, without highly skilled managers motivating their subordinates to achieve these objectives.

Motivation is the mostly accepted managerial tool which is widely utilized by the organizations to attract, retain and develop employees in order to capitalize their knowledge and talents for the success of the organization. Employees are individuals who bring their own perspectives, values and attributes to organizational life, and when managed effectively can bring considerable benefits to organizations (Mullins, 2002). One of the biggest challenges that managers face in executing business strategies to achieve competitive advantage is the selection and employment of motivational techniques that build commitment to operate excellence and winning attitudes among employees (Thompson, Strickland & Gamble, 2005; Peluso, Innocenti & Pilati, 2017).

William (2010) noted that the specific needs, characteristics, expectations, experiences, values and lifestyles have an influence on the development and formulation of appropriate motivation strategies and compensation schemes. To motivate and reward employees, human resource managers have deployed a host of strategies and tactics. According to Donnelly (2008) managers have had to use a variety of strategies that include monetary, non-monetary rewards and support tactics to motivate and reward employees. Arnolds and Venter (2007) mentioned that organizations have a big crisis of motivating employees. Their study showed that billions of money is spent on courses and incentives to help increase employees motivation each year; however it does not always give out higher levels of employees' motivation. This is because there is a different perception between employees and management on how the goals and objectives of the organization must be attained. Management and employees give different importance to the many motivational incentives taking into consideration the situation on the ground.

Rewards are generally used by many organizations as a motivational tool to enhance the performance of employees and it is a broad construct that has been said to represent anything that an employee may value that an employer is willing to offer in exchange for his or her contributions. Mendonca (2002) states that reward and compensation system is based on the expectancy theory which suggests that employees are more likely to be motivated to perform when they perceive there is a strong link between their performance and the reward they receive. Sajuyigbe, Olaoye, and Adeyemi (2013) stated that rewards are basic conceptual elements in improving employee performance. Luthans (2000) highlighted two types of rewards which are monetary or financial (extrinsic) and non-monetary or non-financial (intrinsic) reward and both can be utilized positively to enhance employees' performance.

Armstrong (2007) defined that monetary rewards are refund in cash and in form of money for a given work done by workers in the organization. Bonus scheme, profit sharing, commission, tips, promotion, fringe benefits are considered as key dimensions of monetary rewards. Kasser and Ahuvia (2002) assert that, the idea of using monetary factors as inducements for employees to work well is not a new one, as there are records of some payment schemes as far back as the seventeenth century. Further, added that Frederick Taylor in 1911 described money as the most important factor in motivating the industrial workers to achieve greater productivity. Taylor advocated the establishment of incentive wage systems as a means of stimulating workers to higher performance, commitment, and eventually satisfaction. Robbins and Judge (2008) described that money is the crucial incentive to work motivation because it is the vehicle by which employees can purchase the numerous needs satisfying things they desire. Gbadamosi and Joubert (2005) found that money ethic is significantly and positively related to job performance of employees in the public sector in Swaziland. Springer (2011) supports the view that monetary reward and performance are positively correlated and argues that pay-incentives appear to increase productivity of employees regardless of what job they do. In contrast, Pinto (2011) found that wages did not significantly influence motivation and satisfaction of employees of eight companies of diverse economic segments in Brazil. In addition to that Fehr and Falk (2002) also recorded a negative correlation between monetary incentive and performance. But Mustapha (2013) found a significant and positive correlation between pay and job satisfaction. Further Santhapparaj and Alam (2005) studied job satisfaction among academic staff in private universities in Malaysia, Tan and Waheed (2011) analyzed Herzberg's motivation-hygiene theory and job satisfaction in the Malaysian retail sector and Wietzel (2009) examined the factors that motivate workers and promote retention in government service. All these studies found significant positive relationship between monetary rewards and employee motivation. In addition, Anthony, Govindarajan and Dearden, (1998), Kunz and Pfaff, (2002), Stringer et al. (2011) also supported that monetary rewards could be used to enhance the employee motivation and performance in organizations. Although positive effect of monetary rewards on employee motivation is dominating the literature, no effect and negative effect shown in the different setting cannot be underrated.

In recent years role of non- monetary rewards on employee motivation is also being focused to enhance the performance of employees in organizations. Musaazi (2002) described that non-financial rewards are the non-monetary gains that influence people through non-material rewards such as giving more responsibility, promotion, praise and recognition. This therefore opens up the debate that non-monetary rewards have a role to play internal motivation of employees that monetary rewards cannot address. Kaur (2013) argued that financial reward played a critical role in attracting talented employees, but they have only a short-term impact on the motivational levels of employees. Harunavamwe and Kanengoni (2013) mentioned that the importance of money as a motivator has been consistently downplayed by most behavioral scientists like Herzberg who points out the value of challenging jobs, feedback, cohesive work teams and other non -monetary factors as stimulants to motivation.

Non-monetary incentive has a significant and distinct role that infuses enthusiasm in a worker to perform. Fisher (1995) agreed that, motivating employees through the use of non-monetary rewards is an important way to achieve an objective without the use of money. Wiesen (1999) states that non-monetary incentive has the prospects to encourage workers devoid of cash rewards. Heyman and Dan (2004) found that organizational performance can be raised to the highest level by offering non-monetary rewards to the workers/employees. Nelson (2003) noted that praise and recognition are the most efficient intrinsic rewards an employee wants to hear as employees want to feel that they are making a contribution at their workplaces. Dambisya (2007) investigated that the use of nonfinancial incentives for health worker leads to satisfaction of employees and found that non-financial rewards affect the performance of an individual. Luthans (2008) asserts that, non-monetary rewards include: praise, recognition and benefits and further added that it can be positively utilized to enhance performance. Neckermann and Kosfeld (2008) also affirmed that, non-monetary rewards are social recognitions and they further extended the list to include genuine appreciation, certificate and acknowledgement. Tausif (2012) explored the relationship between non-monetary rewards and job satisfaction for the educational sector in Pakistan and result shows that there is a strong relationship of non-financial rewards with job satisfaction.

However, Bowen (2002) warns that managers have to be aware of nonmonetary rewards because such rewards should not be used at all times and should be utilized sparingly. Beer and Cannon (2002) contended that non-monetary rewards with their advantages have the ability to motivate employees but there is no assurance that they will always lead to efficiency and success in the workplace. This implies that although there are some views regarding the possibility of failure for the use of non-monetary rewards for motivation majority of studies found that non-monetary rewards have positive correlation with employee motivation.

According to the findings from above mentioned studies it is obvious that monetary and non- monetary rewards have positive impact on motivation. But it is vital for employers to understand what effectively motivates their employees in order to maximize the overall potentials available in an organization. However, it might be challenging for an organization to find out what motivates its employees, this is because individuals are motivated differently. According to Thompson (2000), organizations are often faced with difficulty in selecting rewards that are suitable for employees. There is still much confusion as to which rewards really motivate employees in order to obtain high performance. Because there are mixed findings in the literature to determine which type of reward is more effective in enhancing employee motivation.

In this backdrop, this paper reviews theoretical and empirical literature to improve our understanding on monetary and non-monetary rewards and their effect on employee motivation.

2. Literature review

2.1 Monetary and non-monetary rewards in employee motivation

A reward is defined as all of the monetary, non-monetary, and psychological payments that an organization provides for its employees (Bartol & Locke, 2000). A reward is presented after the occurrence of an action with the intent to cause the behavior to occur again. This is done by associating positive meaning to the behavior and it represents what the individuals want to obtain from work or what they perceive (Bartol & Locke, 2000). Reward is an important tool that management can use to channel employee motivation in desired ways. According to Pinto (2011) reward is the benefits that arise from performing a task, rendering a service or discharging a responsibility. Osborne (2013) defines reward as anything that an employee may value and desire and that the employer is able or willing to offer in exchange for the employee's contributions. Merchant (2007) stated that many organizations use reward systems to emphasize on which parameters their employees should put extra effort on, by including them in their reward program. For a reward system to be motivational, the reward should satisfy a number of criteria such as, value, large enough to have an impact, timely, understandable, and durable and cost-efficient Merchant (2007). Rewards are traditionally divided into two categories as monetary rewards and non-monetary rewards.

Monetary rewards consist of tangible awards that are external to the attempts and performed tasks of an employee. Ivancevich and Konopaske (2013) define extrinsic rewards as financial compensation which is made up of direct and indirect financial compensation. Monetary rewards are of great importance because they are the basic element of the employment relationship which aims at improving human resources outcomes (Banfield & Kay, 2008). Bustamam, Teng and Abdullar (2014) recognized the prime purpose of monetary incentive towards successful accomplishment is to motivate the employees and encourage them so as to excel in their job performances.

Non-monetary reward systems include intangible rewards that offer compensation to the employee for their performance. Non-monetary rewards are intangible in nature and offer psychological satisfaction to the employee. According to Armstrong (2007) signs of gratitude, appreciation and thankfulness to the employee offer some form of nonmonetary reward to the employee. Non-monetary rewards boost the psychological motivation of employees as well as promote employee commitment which is a major critique of the monetary forms of reward (Zhang, Farh, & Wang, 2012).

2.2 Monetary rewards and employee motivation

Many studies conducted not only in developed countries but also in developing countries have identified the effect of monetary and nonmonetary rewards on employee motivation, productivity and overall business performance (Peluso et al., 2017; Markova & Ford, 2011; Kumar, Hossain & Nasrin, 2015). Numerous studies have also demonstrated that rewarding employees is one of the best ways to keep the workforce motivated (Mamdani & Manhani, 2016; Zhang et al., 2012; Bustamam et al., 2014).

Judiesch (1994) conducted a Meta-analysis and found that individual pay incentives increased productivity by an average of 43.7%. Another study conducted by Barongo (2013) regarding significant beneficial interaction between salaries and motivation. He presented a convincing argument that increasing salaries within organizations may help to increase the performance of the employees. Kohn (1993) as cited in Fryer (2010) explains that, workers will have decreased motivation and that their achievement will be negative once the monetary incentive strengths are taken away. Besides, Cameron and Pierce (1994) as cited in Shaw and Gupta (2015) propose that incentives are without a doubt solidly and completely related to individual performance and further, that sparks appeared to have no negative bearing on motivation.

Lazear (2000) also suggests that by adding financial rewards to the compensation of employee for the sake of motivation can attract more geared workers to the organization. Further he described that introduction of monetary rewards could gain extra efforts of the employee to that extent where the marginal value added is equal to the marginal cost paid for that additional work. This shows that financial incentives are some types of paid value to employees in return for their extra efforts. Akintoye (2000) asserts that money remains the most significant motivational strategy demonstrates the motivational power of money through the process of job choice. Furthermore he explained that money has the power to attract, retain, and motivate individuals towards higher performance. Sinclair and Katz (2005) mentioned that money possesses significant motivating power in as much as it symbolizes intangible goals like security, power, prestige, and a feeling of accomplishment and success. Luthans (2005) also highlights that money provides a rich basis for studying employee behavior as it offers explanations for why people behave and act as they do.

Monetary rewards are of great importance because they are the basic element of the employment relationship which aims at improving human resources outcomes (Banfield & Kay, 2008). Edirisooriya (2014) conducted a study on impact of rewards on employee performance. This study has examined the relationship between extrinsic reward, intrinsic reward and employee performance in electrical companies. The study concludes that reward plays a vital role in employee performance and it is demonstrated that there is a very strong relationship between pay and employee performance. It proves that most of the employees in electrical companies highly prefer monetary rewards irrespective of their position.

Weerasinghe (2017) conducted a study to distinguish the impact of financial incentives towards employee motivation in University of Sri Jayewardenepura in Sri Lanka. The study comprised an exploratory contextual analysis outline with both quantitative and quantitative strategies. This study evidently shows that financial incentives have been utilized to hold their key employees and balance out their employee motivation and the fact proven through the academic and nonacademic staff, that there is a positive impact of financial incentives towards the employee motivation. William (2010) conducted a study in Cameroon on factors that influence employees' motivation. The study examined financial rewards and performance benefits. The study found that financial rewards and performance benefits both contributed significantly to employee motivation and thereby increasing employees' level of productivity.

A case study conducted on a Taiwanese construction firm indicated that monetary compensation remains a powerful motivator for workers. Gkorezis and Petridou (2012) assert that financial rewards that are associated with performance have the potential to influence employee motivation and organizational effectiveness. Haruvamwe and Kanengoni (2013) note that an analysis of thirty-nine studies conducted over four decades by various researchers in different countries concluded that financial rewards motivate employees. Further United Nations Development Programme mentioned extrinsic rewards play a key role in motivating employees in developing countries and rewards are poor and below the Poverty Datum Line. The study found monetary rewards have significant positive impact on employee motivation in developing countries. Osa (2014) mentioned that the financial incentives can motivate worker to perform well on their occupation. Further he added that administrators persistently look for approaches to make an encouraging domain where workers will work at their discretionary levels to accomplish the authoritative objectives. Work place motivators largely incorporate with financial incentives where it can be different while similarly affecting partners. The reason for financial incentives is to compensate workers for amazing occupation execution through cash. Research demonstrates that pictured financial incentives vary for workers in view of profession stage and generation.

A qualitative research approach has been employed by Chan and Ma (2017) to explore the relationship between monetary rewards and employee motivation in Chinese companies. The findings show contradiction with previous studies about extrinsic motivation may have negative effect on creative workers' performance. Amin and Majid (2017) conducted a study in Malaysian manufacturing industry regarding impact of compensation and benefits on executives' performance. Findings indicated that there is significant influence of compensation and benefits on employee motivation. A study conducted by Sawicki in 2016 includes an international study carried out in 14 countries such as Germany, Belgium, Spain, France, Italy, Sweden, Great Britain, Romania, turkey, Finland, Austria, Czech Republic, the Netherlands and Poland, where 13600 employees were researched in terms of mood and motivation for work. The study clearly shows that 60% of workers are not satisfied with the level of their remuneration. Additionally, about 40% believe that their motivation is on the decrease. The study also asked about the reasons for resignation from the previous workplaces. A study was conducted by Belushi, and Khan (2017) to investigate the impact of monetary incentives on the Shinas College of Technology - Oman employees' motivation and found that the employees are motivated by salary and on duty allowance rather than other benefits.

A quantitative study conducted by Met, Ali and Juhary (2015) to investigate the direct effect of monetary motivation on employees' job performance and mediating effect of job satisfaction on the relationship between monetary motivation and employees' job performance at oil and gas offshore production facilities in Malaysia. The results showed that there is a significant direct effect of monetary motivation on employees' job performance, and job satisfaction partially mediated the relationship between monetary motivation and employees' job performance.

This brief review revealed that although few studies predict that monetary incentives may lead to decreased effort and employee motivation, majority of studies revealed a significant positive relationship between monetary rewards and employee motivation. Because monetary reward, by its nature, is related to the satisfaction of various needs hence it can lead to motivating people at work. The physical value of money may not be valuable, but the perceived value of money is what makes it acquire motivating power.

2.3 Non-monetary rewards and employee motivation

In the early 20th century, money was considered as the most important factor into the production of goods and services. However, after a line of researches, one in particular that is the "Hawthorne Studies", conducted by Elton Mayo from 1924-1932 at the Hawthorne Works of the American Western Electric Company in Chicago. It was concluded that employees were not motivated not only by salaries, but that employee behavior was linked to their attitudes (Lindner, 1998). Hijazi, Anwar and Mehbood (2007) mentioned that recent studies show that non-financial rewards have the potential to improve the competitiveness of organizations in attracting and retaining employees. These rewards are primarily unique to an organization, are a less costly alternative to financial rewards and have a long-term focus, especially in the case of learning and development. Organizations face negative consequences, when they ignore the importance of non-financial rewards on employee retention.

In the United Kingdom context, non-financial motivation is particularly strong in the public sector, and so-called "public service motivation" which has a motivation to serve the interests of the community, which also leads public sector employees to commit efforts because of the value they attach to a social service or other public goal (François, 2000). Stovall (2003) conducted a research on non-financial rewards and worker job satisfaction. The result shows that an effective reward package could have an important impact on the employee's performance. Further he explained that non-financial rewards motivate workers which lead to job satisfaction.

In the context of Africa, Kotler and Kallen (2007) conducted a study to describe how non-financial motivation result in employee motivation and how it affects in behaving positively towards the following ways: employees who stay loyal to the organization, speak positively about the organization in comparison to newer employees. In another study Kube et al. (2006) describe that monetary rewards are beneficial in short-term period and ineffective for long-term period. Further they state that non-monetary rewards have a significant and consistent effect on their satisfaction. Dewhurst, Guthridge and Mohr (2009) examined the responses received from executives, managers, and employees around the world and found that three non-monetary motivators such as praise from immediate managers, leadership attention and a chance to lead projects or task forces were more effective motivators than the three highest-rated monetary incentives like cash bonuses, increased base pay and stock or stock options.

Erbasi and Arat (2012) examined the impact of financial and non-financial incentives for food and hospitality sectors in Turkey and found that both financial and non-financial rewards are important elements of job motivation. Nonetheless, non-monetary rewards are considered more important in terms of motivating workers to increase their performance compared to monetary rewards performance in motivating employees. Tausif (2012) investigated the relationship between non-monetary rewards and job satisfaction among teachers in public schools in Kisii County and found that non-financial rewards are the most powerful predictors of job motivation and ultimately job satisfaction. Aktar (2012) contend that non- monetary rewards 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 increase their performance. This reward is highly appreciated probably due the opportunity it offers in terms of skill development of the workers which in the long run could be translated to higher monetary reward. Another study was conducted by Ijaz (2013) to exhibit to what extent non-financial incentives are utilized in the public sector of Pakistan and whether non-financial incentives have the potential to increase the motivation of public employees as much as the financial incentives. According to the results of the study, most of the employees think that the level of utilization of the nonfinancial incentives in their organization is inadequate. Also, the findings suggest that they value non-financial incentives as much as financial incentives.

Aisha (2013) conducted a research on the effects of working ability, working condition, motivation and incentives on employee multi-dimensional productivity in Indonesia. The results showed that working conditions, incentives and motivation had a statistical significant effect on employee productivity.

Tausif (2012) explored the relationship between non-financial rewards and employees job satisfaction for the educational sector of Pakistan. Results show that non-financial rewards are the strong determinant of job satisfaction for the employees of public educational sector of Pakistan. Njambi (2014) also found a significant relationship between employee motivation and organizational performance in Kenya. The study also found that both intrinsic factors such as employee achievements, recognition, and work prestige, all were significant in enhancing employees' level of motivation among employees. Kumar, Hossain and Nasrin (2015) conducted a study to measure the impact of non-financial rewards on employee motivation in different organizations of Bangladesh. The results indicate that a significant impact on non-monetary rewards contribute to employee motivation. There is a positive correlation between non-monetary rewards and employee motivation.

This literature reviews signifies the importance of non-monetary rewards to enhance employee motivation. Furthermore this analysis explored that effective non-monetary rewards can change a person's attitude in the workplace which itself brings a positive change in environment and also enhances employee performance. When employees have positive attitude towards their job, they feel committed with the organization and get engaged in the work and results will be effective output. Thus, non-monetary rewards are also vital to satisfy employees' many other needs such as social interaction, belongingness, recognition, respect, attention, a feeling of achievement, autonomy, a meaningful job, a feeling of self-worth, developing one's full potential, feedback about performance etc. Finally, although few studies casted doubt on the motivational power of non – monetary rewards majority of the studies confirmed the positive relationship between non- monetary rewards and employee motivation.

2.4 Monetary and non-monetary rewards: Which is more effective?

The present review shows sufficient evidence to support the view that both monetary and non - monetary rewards have a positive effect on employee motivation and their performance. But which dominates over other is remaining unanswered. Some studies attempted to answer this question. Al-Nsour (2012) investigated the influence of financial and non-financial incentives on the organizational performance of the employees in Jordanian Universities and concluded that financial incentives are more valuable than non-financial. Rahim and Daud (2013) from their study in Malaysia confirm that extrinsic rewards such as salary, medical, bonus and accommodation are at high level of importance than non-monetary rewards. Zaman (2011) states that monetary rewards correlate directly with employee motivation while non-monetary rewards does not make any significant impact on employee motivation. Wallace and Zeffane (2001) noted that monetary rewards are among the most powerful factors affecting employee motivation and performance, money is a unique reward that can satisfy different needs such as physiological need for food.

Many recent studies state that monetary rewards have a significant positive effect on employee motivation, productivity and performance, while others cast doubt on previous research and assert that there is low correlation among the non – monetary rewards (Mokhniuk, 2016). Zaidi and Abbas (2011) also reported that monetary rewards have higher correlation with motivation than non-monetary rewards. On contrary Uzonna (2013) states that the use of non-monetary rewards can be effective and less costly way of motivating staff as opposed to monetary rewards.

With these it is apparent that money is indeed the important factor that motivates people at the workplace. Because although some studies stated that non-monetary rewards are most effective in employee motivation than monetary rewards majority of the studies found that monetary rewards are most effective than non- monetary rewards due to money is regarded as a very high reward for the individuals that have worked hard for it. It is also regarded as the highest form of reward for employees.

3. Conclusion

This paper reviewed extant literature dealing with the effect of monetary and non-monetary rewards on employee motivation. The success of monetary rewards on the motivation of employees has long been discussed in the literature. This paper found that monetary rewards are traditionally accepted in the international scenario and it is evident that monetary rewards have significant and importance effect on employee motivation without any major differences between developed and developing country context. This is due to the fact that money is considered as the sign of triumph and accomplishment because it allows the human to fulfill the needs of belongingness. It enables the human to establish the status, rank and authority. However, there are researchers who completely disagree with money being the only key motivator stating that money does not significantly affect employee's motivation. Though monetary reward contributes a lot in motivating the employees, but at the same time nowadays organizations have also been recognized the non-monetary rewards are equally important in enhancing the employee motivation. The impact of non-monetary rewards is instrumental in improving the employee morale. Employees expect recognition and encouragement for their services because nobody likes to be unappreciated for the efforts he or she made. Therefore, the organizations have to focus on both of the monetary and non-monetary rewards in order to motivate and retain their employees in order to maximize the organizational performance. However, it should be noted that non-monetary incentives are only effective when money is not an issue, that is, only if employees are satisfied with their salaries or monetary rewards.

All in all, monetary reward is the fundamental component in employee motivation and it has the unique power to motivate employees without any support of other rewards. Non-monetary rewards also needed for employee motivation, but these rewards do not have the power to motivate employees without the support of monetary rewards.

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