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EFFECT OF INCENTIVES ON EMPLOYEE'S PERFORMANCE

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Abstract: Incentives play an important role in enhancing employee performance. With the improvement of employee performance, the organization's output also rises. This study seeks to comprehend the association between employee incentives and performance. In this study, descriptive research methodology is employed, and secondary data sources are utilised to collect diverse perspectives on employee incentives and performance. The results revealed that, there is an association between incentives and employee performance. Both incentives are essential for encouraging employees to improve their performance.

Key words: Monetary Incentives, Non-Monetary Incentives, Employees Performance.

Introduction

All employees are interested in receiving some kind of incentive, such as monetary incentives. It will be an improvement in the way employees are motivated. The performance of employees is a very essential factor in the overall success of the organization in achieving its goals. For companies, incentives are anticipated to enhance various aspects of employee performance, including job productivity, loyalty, discipline, a sense of duty towards the workplace, and improved quality of leadership. Additionally, these incentives provide employees with the possibility to augment their pay income. The incentives provided by the management of a firm serve as a kind of appreciation for employees' performance inside the organization. Additionally, financial incentives can demonstrate to staff that the organization recognizes and appreciates their efforts, thereby boosting their job satisfaction and dedication to the company. Employees have a crucial and strategic role inside an organization, as they hold significant positions that contribute to its overall functioning and success. The individuals in question bear the responsibility of transforming inputs into outputs that yield desirable outcomes. Various types of financial incentives exist, including signing bonuses, performance-based bonuses, profit sharing schemes, and stock options. The purpose of these incentives is frequently to allure and keep highly skilled personnel, while also stimulating optimal performance among employees.

Motivating employees comes from within. Direct observation is impossible. To be more motivated at work, every employee wants to be driven in some way, such as by financial or non-financial rewards. According to Mishra and Bhandari (2013), non-financial incentive programs, a positive workplace culture, and incentives and recognition all have a significant impact on employee motivation. Employees will carry out their responsibilities to the best of their abilities when they receive just rewards. Employee performance and incentive programs are highly correlated. Any organization's facilities, policies, and processes will all have an impact on how well its employees perform. The enhancement of employee work performance is achieved by the implementation of effective and efficient policies and welfare services, hence contributing to greater organizational effectiveness. The single most important component in raising employee performance is considered to be a good incentive scheme. According to Choudhary and Ghosh (2017), employee performance and the incentive scheme have a direct correlation. Through incentives, staff members feel a connection to their jobs and organisation.

Incentive

The term "incentive" refers to anything that encourages a person to do something, as well as the additional monetary recompense or motivation. An incentive is a reward connected to performance that boosts productivity and staff motivation. Incentive encompasses anything that provides additional compensation for exceptional performance in addition to the job's standard salary. The incentives can be broadly divided into two categories: monetary incentive and non-monetary incentive.

- **Monetary Incentive:** Monetary incentives are those which is measured in terms of money are known as monetary incentives. Financial incentives can be provided to employees in order to meet their monetary and future security requirements. The following monetary incentives are as follow:

- **Pay and allowances:** Annual wage increases and the provision of an allowance are effective motivators. In some firms, pay increases and bonuses are directly proportional to an employee's performance. To receive raises and bonuses, employees must perform at their best.
- **Profits sharing:** The company offers a portion of the profits to each employee as a perk to motivate them to perform well. Typically, firms establish a percentage of profits under profit-sharing agreements, and If profits are more than that proportion, the excess profits are given to the employee. It motivates staff to work hard to increase sales so they can share in the company's profits.
- **Co-partnership/stock option:** Employees do not acquire ownership rights through profit sharing. Many firms provide their employees a share in management or engagement in management, as well as a stake in profit, as an incentive for them to work effectively. Following the accomplishment of a defined objective, shares are issued, presenting the co-partnership.
- **Bonus:** A bonus is a one-time extra payment made to an employee in recognition of exceptional work. Employees frequently receive a bonus, which is an additional payment made when they reach or surpass their goals. In addition, bonuses are given out in the form of gold, paid holidays, free international trips, etc. A bonus scheme is in place during the holidays at several firms.
- **Commission:** Commission is the most prevalent reward granted to sales department staff. In general, sales personnel receive a base income plus commission for their efforts. More orders result in greater commission.
- **Suggestion system:** Under the recommendation method, employees are compensated if the organization benefits from their suggestions. For instance, if an employee recommends a method for reducing costs, the individual receives additional compensation. The amount of compensation or payment given to an employee

under the recommendation system is proportional to the gain or profit the organization receives as a result of that employee's idea. This is a very effective incentive for maintaining a high level of initiative among employees.

- **Productivity linked with wage incentives:** These wage rate structures give greater pay in exchange for higher output. Workers who are more productive are paid more under the differential piece wage system. Employee performance must be effective in order to receive higher pay.
- **Retirement benefits:** Numerous organizations give retirement benefits such as pensions, provident funds, and gratuities as incentives to motivate their employees. These incentives are appropriate for employees who require the maintenance of security and safety.
- **Perks/ fringe Benefits/ perquisites:** These perks are on top of the pay if they include free medical care, free schooling for children, free housing, etc. These extra benefits depend on how well the workers do their jobs.

  - **Non-Monetary Incentives:** Non-monetary incentives are those which is in the form of kind. In general, individuals who hold a prominent job position or rank. Non-financial incentives are as follows:

- **Status:** The terms rank, authority, responsibility, recognition, and prestige are all associated with status in relation to a work. Managers can inspire employees with an active demand for esteem and self-actualization by promising increased position or rank inside the firm.
- **Organizational climate:** It is a reference to the hierarchy of relationships between superiors and subordinates. These are the qualities that define both the organization and the organization itself. These qualities have a direct impact on the behaviour of a member of the group. In a healthy organizational climate, employees consistently exhibit motivation, and the adoption of a positive attitude by managers contributes to the creation of a more favourable organizational environment compared to a negative approach, which has the potential to detrimentally impact the overall atmosphere.
- **Career advancement:** Managers must provide promotional chances to staff. Employees strive to enhance their level of expertise and productivity whenever there is an opportunity for a promotion with the expectation that they would be elevated to a higher level. Promotion is one of the most potent stimulants or motivators, and it pushes people to perform to the best of their ability so that they can advance in their careers.
- **Job enrichment/ assignment of challenging job:** Employees experience boredom when their work is repetitive. They get a kick out of doing tasks that challenge them in new ways and provide them the chance to showcase their expertise. Employees can be satisfied with their work and driven to do well when their occupations are fascinating, demanding, and have some degree of autonomy in how they are performed. A profession that is interesting, enriching, and demanding can be a very good motivator or stimulant in and of itself.
- **Employee's recognition:** To give someone special consideration or respect in order to appease their ego is what we mean when we talk about recognition. The gratification of one's own ego can be an extremely powerful drive. When subordinates put in good effort or have a positive attitude, their superiors are obligated to publicly acknowledge their accomplishments and thank them for their contributions. This should happen in front of other people who work there. When a subordinate has a bad attitude or makes a mistake, it should be talked about in private by calling the worker into the office. This should be done whenever there is any mistake or negative

attitude. Employees can be recognized in a variety of ways, including by offering congratulations on good performance, showcasing the accomplishments of employees, presenting certificates of success, delivering keepsakes and presents, and other similar actions.

- **Job security:** When an employee feels secure in their position within an organization, it fosters a relationship that lasts a lifetime. The provision of a permanent or confirmation letter constitutes job stability. The need for job security assures one's safety and security, yet it may have unintended consequences. When employees feel that their jobs are safe, they lose interest in their work. For instance, government personnel don't put forth their best effort because they don't have to worry about losing their jobs. There must be some terms and conditions attached to the guarantee of employment.
- **Employee's participation:** Involving workers in the decision-making process, particularly when those decisions have an impact on workers, is what it entails. When decisions are made after employees have been consulted, workers are more likely to adhere to those decisions with integrity. If, for instance, an employee's production goal is set after employee input, the worker is more likely to make an honest effort to meet that goal.
- **Autonomy/ employee empowerment:** It involves granting subordinates a greater degree of autonomy. Employees will gain confidence as a result of this empowerment. When they are allowed more independence, they demonstrate via their positive skills that they are able to execute to the best of their abilities.

Objective of the study

- The objective of this study is to ascertain the diverse financial and non-financial incentive schemes used by the organization to enhance employee performance.
- To understand the relationship among the incentives and employee performance.

Review of Literature

Agrawal & Tiwari (2021) conduct a study on “Impact of Financial and Non-Financial Incentives Schemes on Employee Performance: A General Perspectives”. The study's goal is to determine the effects of financial and non-financial incentive programs on worker productivity. This study is based on the descriptive research approach, which uses secondary data to gather the many viewpoints on the relationship between employee performance and incentives. According to the study, there is a favourable correlation between incentive programs and employee performance, and both financial and non-financial incentives are significant factors affecting employee performance.

Kaur et al., (2021) conducted a study on “Monetary Incentives Motivate Employees on Organizational Performance”. This study aims to establish a connection between financial incentives and their impact on employee performance. According to the study, only financial incentives are sufficient to persuade employees across all categories to increase their work performance.

Ruhnama et al. (2021) aimed at investigating the impact on relationship between financial incentives and employee's productivity. This incentive motivates employees to work in a productive way. It is the duty of personnel to transform inputs into productive outputs.

Nnubia & Lovina (2020) examined the “Effect of Monetary Incentives on Employee's Performance in Manufacturing Firms in Anambra State”. The study's objective was to determine the association between employee performance in manufacturing firms and bonuses, fringe perks, salaries, wages, and commissions.

Data has been collected from 287 respondents. To determine the outcome, they employ the Pearson product moment correlation coefficient. The results demonstrate a favourable correlation between employee performance and bonus, fringe perks, salary, wages, and commission. Financial incentives are regarded as the most significant factor influencing the productivity and expansion of the organization.

Agbenyegah (2019) conduct a study on "Effect of Financial and Non-Financial Rewards on Employee Motivation in Financial Institution in Ghana". This study's objective is to determine how financial and non-fina9ncial incentives affect how well-trained employees perform in financial institutions in Ghana. This study discovered that both monetary and non-monetary awards have a significant impact on employees' performance.

Adaeze & Ogechukwu (2019) examined the "Effect of Monetary Incentive on Workers Performance in Nigerian Organisation". The goal of this paper is to identify the effects of director compensation on organisational performance, the extent to which salaries and wages influence organisational performance, and the impact of employee benefit plans on organisational performance. They took the survey from 115 respondents. They use the chi-square test to find result. The results show that salaries and wages significantly affect an organization's performance, and employee benefit programs also have a big impact. The salary of directors significantly affects the functioning of the organization.

Al – Tamimi (2018) examine the effects of financial and non-financial incentives on employee performance. This elucidates the correlation between job performance and financial incentives. The presence of a statistically significant relationship between employee performance and demographic factors such as age, gender, marital status, and experience has been observed.

Novianty & Evita (2018) aimed at investigating the impact on relationship between financial incentives and employee's motivation. The company provides its workers with a wealth of perks, which contributes to a culture of high morale. Employees are able to generate excitement about their work thanks to motivation at work, which is the driving force.

Khan et al. (2017) conducted a study on "Impact of Rewards (Intrinsic and extrinsic) on Employee Performance: With Special Reference to Courier Companies of City Faisalabad, Pakistan". The purpose of the study is to find out the effect of reward on employee performance. They took the survey from 60 respondents. They use the Correlation coefficient, Regression analysis and ANOVA test to find result. The finding states that there is an association between reward and employee performance.

Ranjan & Mishra (2017) conducted a study on "Impact of Rewards on Employee Performance: A Case of Indian Oil Corporation, Patna Region". The aim of the study is to investigate the impact the reward on employee's performance. They took survey from 115 respondents. They Use Chi-square test to find result. The finding shows that cash incentives have a positive effect on the performance of Indian Oil Corporation Ltd. employees. However, many employees believed that it has no positive effect on performance, while others were neutral. It was observed that many employees were dissatisfied with the company's financial rewards. According to them, bonuses were not distributed equitably among employees.

Salah (2016) conducted a study on "The Influence of Rewards on Employee's Performance". This study's objective is to investigate how different reward categories affect workers' productivity. They collected the data from 513 participants. They calculate the results using the frequency, mean, standard deviation, and Pearson product moment correlation coefficient. They discovered a substantial positive correlation between reward kind and worker performance.

Joseph (2016) purpose to examine the effect on correlation between monetary incentives and the performance of employees. Monetary incentives are given due to encouragement of employees to perform well in their work.

Venugopal & Hassan (2015) examined the "Impact of Monetary and Non- Monetary Incentives on The Performance of Employees in the Government Hospitals in Al Ahsa Region". This study's objective is to ascertain how financial and non-financial incentives affect workers' productivity. The data have been collected from 127 respondents. According to the findings incentives and employee performance are positively correlated.

Hussain et al., (2012) conducted a study on the "Relationship Between Incentives and Organizational Performance for Employees in the Pakistani Universities". This study aims to determine the relationship between employee incentives & organizational performance in Pakistani universities. They collected surveys from 88 participants. To arrive at a conclusion, they apply the correlation, regression, and t-test. The results demonstrate that incentives and organizational performance have a strong positive relationship.

Al-Jassasy (2011) examined "The impact of financial and non-financial incentives in improving employees at the Omani ministry of education performance". The primary aim of this research was to investigate the impact of financial and nonfinancial incentives on employee performance, while taking into account the potential positive and negative consequences. A questionnaire was employed as a data collection instrument in this study, which focused on a sample of 290 individuals occupying leadership positions and working as employees across several directorates within the field of education. The results of the study revealed that there were no statistically significant variance in the perspectives of participants on the effectiveness of monetary and non-monetary incentives in improving performance of the employees at the Omani Ministry of Education. The findings exhibited consistency across many demographic variables, including age, marital status, educational attainment, and occupational designation.

Awwad (2011) examined "Influence of incentives on workers at Nablus specialized hospital". The objective of this study was to identify the various forms of incentives provided to employees and assess the level of satisfaction they experienced with the current incentive system. Additionally, the study attempted to determine the correlation between the incentive system and employee satisfaction. The research utilized a descriptive methodology to assess the impact of incentives on employee performance, in addition to an analytical approach involving the development and administration of a targeted questionnaire. The questionnaire was specifically designed to test this relationship and was sent to a sample of 75 employees. The results of the investigation revealed a dearth of significant monetary and non-monetary motivators, alongside the absence of any statistically noteworthy correlation between the dependent variables (financial and non-financial incentives related to home) and the performance of employees at Nablus Specialized Hospital.

Hetzel (2010) aimed at investigating the relationship between financial incentives and individual performance and also investigating the psychological and economical approach to analyse the financial incentives. They are given rewards based on their efforts in the organisation.

Al -Badi, (2008) study was conducted with the objective of determining the extent to which managers in organizations possess the skill of motivating employees, as well as the extent to which these motivational techniques are utilized to enhance employee performance. Additionally, the study aimed to identify the criteria employed by managers when appraising their employees in order to motivate them. Lastly, the study sought to identify the most significant incentives provided to employees. The findings indicate that the managers shown proficient abilities in employee motivation and effectively utilized both financial and non-financial incentives to reward organizational staff.

Al - Akish (2007) examined the “Rewards and incentives system at Palestinian authority’s departments and its role in improving employee’s performance”. This study's goal was to determine the value of incentive and rewards programs and how they affect workers' ability to do their jobs better in the designated Gaza Strip departments. The results show that improving performance in the Palestinian Authority's departments was not greatly impacted by the rewards and incentives system. Additionally, it was observed that a significant proportion of employees lacked awareness of the incentive system and the process of issuing prizes.

Awwad (2005) paper title is “A System for measuring job performance for employees at Palestinian authority departments at Gaza Strip”. The objective of this study was to analyse the job performance system implemented by the departments of the Palestinian Authority, with a focus on determining the current status and practices of performance appraisal within this authority. The primary findings of the study revealed several key issues. Firstly, there was a notable deficiency in the effectiveness of the performance appraisal system. Secondly, there was a concerning vulnerability in the establishment and definition of the criteria used for evaluation purposes. Lastly, the training process for both supervisors and employees prior to implementing the system was found to be inadequate, with a lack of alignment between the system's outcomes and employees' training plans. Nevertheless, the study proposed the subsequent findings. (1) It is imperative for all parties involved to approach assessment processes with a high level of seriousness and under the guidance of higher managerial authorities. Additionally, the implementation of performance metrics is necessary to enhance the fairness and precision of these processes. (2) Furthermore, it is recommended to involve several supervisory levels in both the evaluation and development of criteria. (3) Employing multiple methodologies for assessing diverse work roles.

Research Methodology

This research used a secondary data and it is based on qualitative analysis. All pertinent and necessary information has been gathered from books, journals, magazines, research articles, and online sources.

Conclusion

According to this study's findings, there is a strong positive correlation between employee performance and incentives. For employees, both incentives are worthwhile. The financial and non-financial incentive programmes that the firm uses to improve employee performance are described in this study. The study discovered that both financial and non-financial incentives, such as pay and allowance, bonuses, fringe benefits, retirement benefits, etc., drive workers inside an organisation. Non-financial incentives also include a healthy work environment, job security, career-oriented work, training, etc.

Limitations

This research has several limitations. This study is predominately based on human behaviour, which is difficult to understand. One employee may be motivated by financial incentives, while another may be motivated by non-financial incentives. Therefore, these findings may not be applicable to all organisations.

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