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## **THE IMPACT OF MONETARY REWARDS ON THE MOTIVATION OF EMPLOYEES**

**Summary:** The influence of monetary incentives on the motivation of employees was considered in this article. A calculation of the interrelationship between monetary rewards and labour productivity was provided, as the most visible quantitative indicator of employee motivation. In the course of this research, the specific components of the overall payroll were examined, and their impact on the productivity of employees was determined. The results of the study indicated that extra pay, bonuses, and inducement pay had a positive linkage with labour productivity, whereas the basic wage level and indexation were not found to have a significant effect on motivation. It was considered important to establish the most suitable recommendations for managers, in terms of improving their system of financial rewards with the objective of enhancing the level of employee motivation.

**Key words:** monetary rewards, labour productivity, employee motivation, organizational performance, motivation system.

### **1. INTRODUCTION**

An initial point to underline in connection with the findings of this study is that the devising effective methods for motivating employees is one of the major factors in improving the performance of an organization. Organizations are more successful if their employees are constantly seeking new ways to improve their work, and getting workers to reach their full potential can be achieved by providing them with motivation. For this reason, the development of policies for remunerating employees appropriately so as to improve their motivation is a topic that requires special attention.

Clearly, it would be difficult to overestimate the significance of monetary incentives in contributing to employee satisfaction. They have always been indispensable in stimulating employees' performance. Financial incentives are used to attract competent people to join an organization in the first place, to persuade them to remain there subsequently, and finally, as we have been indicating, to

give them an incentive to achieve a high level of performance. However financial “stimulation” is not the only important factor; it is just one element of the system for motivating personnel.

There are, in fact, many different options available for increasing the motivation of individuals to carry out their responsibilities. It is clear that techniques for improving motivation are not necessarily permanent in terms of their effectiveness. Moreover, a single factor elicits different reactions in different people - what may increase one employee’s productivity may actually undermine the motivation of another. This confirms the importance, and indeed the necessity of studying the needs of the individual, including his attitudes, his desires and his priorities, in order to develop an effective system of employee remuneration.

## **2. OBJECTIVES AND METHODOLOGY OF THE RESEARCH**

It is evident that the issue of developing an effective motivation system is of great interest both from the practical and from the scientific viewpoint. However, some crucial aspects of motivational methods and how they can be combined have been insufficiently investigated in Ukraine. We are of the opinion that financial incentivization should be considered from a different angle.

Our primary objective is to investigate how financial rewards affect employee productivity. This study focused on the various components of the salary and their correlation with labour productivity. We sought to investigate whether an increase in different specific parts of the compensation is significant, or whether employees are simply interested in an overall increase. The present study was conducted in 2016 using PJSC “Dubnomoloko”, a company situated in Ukraine, for demonstration purposes. All the data which were used in the process of the research involved a three-year period, from 2013 to 2015. An analysis has been made of the overall payroll and its structure, including the basic salary, the supplementary payments, and inducement payment, as well as the level of labour productivity, the payment motivation ratio, and the productivity payment growth ratio.

## **3. REVIEW OF THE LITERATURE**

A large number of studies have identified the effect of monetary and non-monetary incentives on employee productivity and overall business performance. Numerous studies have also demonstrated that rewarding employees is one of the best ways to keep the workforce motivated. It has been found that the way in which employee motivation is linked with rewards and recognition is strategically important for achieving successful performance in an organization. It is important to understand the best practices used in the employee motivation process in foreign countries, in order to implement the ones which will be the most beneficial in domestic firms. Many recent studies state that financial incentives have a significant

positive effect on labour productivity and performance, while others cast doubt on previous research and assert that there is low correlation among the indicators mentioned above. At the same time, monetary remuneration is not the only factor for stimulating staff productivity.

Saqib's<sup>1</sup> suggestion that the balance between financial and non-financial rewards plays a role in increasing the level of job satisfaction, motivation and organizational commitment is a proposition which is generally accepted without argument. When we consider Maslow's<sup>2</sup> motivation hierarchy, it is obvious that employers would benefit by devising some type of non-monetary reward in cases where the monetary compensation is already sufficient.

Unfortunately, in the current business environment in Ukraine all the intangible motivation practices appear to be useless, because of the inappropriate financial compensation system. In other words, the first thing to do is to examine how adequate the financial reward is, whether it works as motivator or demotivator, and then zoom in on the improvement of the weak points. Only then is it worth implementing non-financial incentives to motivate personnel. Unfortunately, in the current business environment in Ukraine all the intangible motivation practices appear to be useless, because of the inappropriate financial compensation system. In other words, the first thing to do is to examine how adequate the financial reward is, if it works as motivator or demotivator, and then zoom in on the weak points improvement. Only then it is worth implementing non-financial incentives to motivate personnel.

Salau emphasizes that the salary of employees should commensurate their efforts so as to increase their morale and their degree of commitment<sup>3</sup>.

Waqas and Saleem state that investment in training and development can enhance the capabilities of employees and in turn they will perform in a more efficient and innovative way<sup>4</sup>.

Ali Erbaşı and Tugay Arat examined the effect of financial and non-financial incentives on job satisfaction for food chain outlets in Turkey<sup>5</sup>. According to their study, the responsiveness to financial incentives was found to be lower than to non-financial incentives.

<sup>1</sup> S. Saqib, M. Abrar, H. M. Sabir, M. Bashir and S. A. Baig, *Impact of Tangible and Intangible Rewards on Organizational Commitment: Evidence from the Textile Sector of Pakistan*, "American Journal of Industrial and Business Management" 2015, vol. 5, p. 138–147, <http://dx.doi.org/10.4236/ajibm.2015.53015>

<sup>2</sup> A. H. Maslow, *Motivation and Personality*, Harper, New York 1954, p. 411.

<sup>3</sup> O. P. Salau, A. A. Adeniji, and A. Oyewunmi, *Relationship Between Elements of Job Enrichment and Organisational Performance Among the Non-Academic Staff in 3 Nigerian Public Universities*, "Marketing and Management Journal" 2014, Vol. 12(2), p. 173–189.

<sup>4</sup> Z. Waqas, Dr. Sh. Saleem, *The Effect of Monetary and Non-Monetary Rewards on Employee Engagement and Firm Performance*, "European Journal of Business and Management" 2013, Vol.6, No.31.

<sup>5</sup> A. Erbaşı, T. Arat, *The Effect of Financial and Non-financial Incentives on Job Satisfaction: An Examination of Food Chain Premises in Turkey*, "International Business Research" 2012, Vol. 5, No. 10.

Al-Nsour investigated the influence of financial and non-financial incentives on the organizational performance of the employees in Jordanian Universities<sup>6</sup>. This research paper demonstrated the very considerable correlation which exists between financial and non-financial incentives and organizational performance, as well as internal business processes. Al-Nsour's conclusion that financial incentives are more valuable than non-financial is of significant interest.

Rose declares that the impact of financial incentives is lower than other motivational drivers such as harmonious project relationships and the scope for future opportunities, in the case of some specific Australian building projects<sup>7</sup>.

Barongo demonstrates the significant beneficial interaction between salaries and motivation. He presents a convincing argument that increasing salaries within organizations may help to increase the performance of the employees<sup>8</sup>.

Shujaat and Alam highlight the importance of both monetary and non-monetary methods to keep employees motivated to achieve their best performance<sup>9</sup>.

Thus, there are many studies which investigate the link between monetary rewards and labour productivity or organizational performance in international scenarios; however, there is an urgent need to explore this correlation in Ukraine. The influence of financial incentives on the performance of employees is worth considering in some depth. In recent years managers have become increasingly interested in determining the impact of monetary rewards on employee engagement, loyalty, productivity and other indicators that can enhance organizational performance.

At this point it's important to investigate the effect of different components of the financial reward on labour productivity.

## 4. KEY RESULTS

The motivation system determines employee productivity and engagement. It is obvious that effective motivation enhances the overall organizational performance, whereas poor stimulation has a negative effect on profits. An appropriate reward system encourages employees to achieve their best performance. Financial rewards

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<sup>6</sup> A. Marwan, *Relationship between incentives and organizational performance for employees in the Jordanian Universities*, "International Journal of Business and Management" 2012, vol. 7(1), p. 78–89.

<sup>7</sup> T. M Rose, *The impact of financial incentive mechanisms on motivation in Australian government large non-residential building projects*, Published PhD thesis, Queensland University of Technology, New York 2008.

<sup>8</sup> E. K. Barongo, *The Role of Financial Incentives on Employees' Motivation in Financial Institutions in Tanzania: a Case of Bank of Tanzania*, A Dissertation for the Award of MBA (HRM) at University of Tanzania 2013, p. 93.

<sup>9</sup> S. Shujaat, R. Alam, *Impact of non-monetary rewards on employee's motivation: a study of commercial banks in Karachi*, "Journal of Management and Social Sciences" 2013, Vol.9, No. 2, (Fall 2013), pp. 23–30.

usually include the basic salary, bonuses, allowances, fringe benefits, insurance, and incentive payments, while the non-financial rewards can take a number of forms: receiving expressions of appreciation; being entrusted with new challenges; receiving flexible work hours; experiencing a caring attitude from employer, and receiving recognition for accomplishments.

We feel very strongly that payment or a so-called remuneration package could be either a motivator or a demotivator. It also depends on the way the payment system is organized in each individual enterprise.

As a demonstration of the monetary reward system for PJSC “Dubnomoloko”, the numerical results are given in table 1.

The results show an average monthly pay increase of 11% in 2014 and 44% in 2015. This factor is considered to have a significant positive effect on employee motivation, consequently leading to an increase in labour productivity. In any case, we considered labour productivity to be one of the most important quantitative indicators of employee motivation. However, we observed a 6% decrease in labour productivity in 2014, and an increase of only 29% in 2015.

**Table 1. Monetary rewards at PJSC “Dubnomoloko”**

No	Indicator	2013	2014	2015	Relative deviation	
					2014/2013	2015/2014
1	Number of employees	793	766	684	-0.03	-0.11
2	Overall payroll, thou UAH	22440.7	24050.3	30878.8	0.07	0.28
3	Basic pay, thou UAH	16398.3	17406.9	19077.2	0.06	0.10
4	Supplementary pay fee, thou UAH	6033.5	6632.3	11796.6	0.10	0.78
	extra pay, thou UAH	573	968.4	1076.5	0.69	0.11
	bonuses and rewards, thou UAH	3494.8	3497.8	4636.1	0.00	0.33
	indexation, thou UAH	82.8	1213.4	4545.1	13.65	2.75
	leave payment, thou UAH	1882.9	952.7	1538.9	-0.49	0.62
5	Inducement (incentive) pay and compensation, thou UAH	8.9	11.1	5	0.25	-0.55
6	Average monthly pay, UAH	2358.21	2616.44	3762.04	0.11	0.44
7	Industry average pay, UAH	2450	2690	3300	0.10	0.23
8	Output, thou UAH	704055	636627	734567	-0.10	0.15
9	Labour productivity	887.837	831.105	1073.93	-0.06	0.29

*Source:* investigated by the author.

It is our firm conviction that the decrease in labour productivity in 2014 is closely connected with the almost total lack of growth in bonuses and rewards in the year. We now turn to the structure of the employee overall payroll. We observe that the level of inducement pay increased slightly in 2014 but decreased sharply in 2015. It is interesting to note that the increase in the level of inducement pay in the base year led to an increase in labour productivity the following year.

At the same time a decrease or even a maintenance of an unchanged level of bonuses and rewards causes a decrease of productivity. Beyond that, we see no strong correlation between basic pay and labour productivity.

Table 2 presents the dynamics of the payroll components per individual employee, as well as the change in its structure.

We observe that the indexation level (both overall and per individual employee) increased dramatically (by 1365%, 275%; and 1417%, 319% per employee); however, this has not resulted in a corresponding rise in productivity (-6%; 29%). Thus we are led to the conclusion that if the rise in the component has no cause-and-effect relationship with the operations of the employee, it won't lead to a rise in productivity (as in the foregoing example with indexation).

**Table 2. Indicators of the effectiveness of the monetary reward system at PJSC "Dubnomoloko"**

No	Indicator	2013	2014	2015	Deviation	
					2014/2013	2015/2014
1	Basic pay per employee per month, UAH	1723.23	1893.70	2324.22	0.10	0.23
2	Supplementary pay fee per employee per month, UAH	634.04	721.53	1437.21	0.14	0.99
	extra pay per employee per month, UAH	60.21	105.35	131.15	0.75	0.24
	bonuses and rewards per employee per month, UAH	367.26	380.53	564.83	0.04	0.48
	indexation per employee per month, UAH	8.70	132.01	553.74	14.17	3.19
	leave payment per employee per month, UAH	197.87	103.64	187.49	-0.48	0.81
3	Inducement (incentive) pay and compensation per employee per month, UAH	0.9353	1.2076	0.6092	0.29	-0.50
4	Payment motivation ratio	0.96	0.97	1.14	0.01	0.17
5	Percentage of basic pay in overall payroll, in percentages	73.07	72.38	61.78	-0.70	-10.60
6	Percentage of supplementary pay in overall payroll, in percentages	26.89	27.58	38.20	0.69	10.63
7	Percentage of inducement (incentive) pay and compensation in overall payroll, in percentages	0.0397	0.0462	0.0162	0.0065	-0.0300
8	Productivity/ payment growth ratio		0.8437	0.8987		0.0550

Source: investigated by the author.

It is important to bear in mind the demotivating effect of a decrease in the inducement payment. We predict that a five-percent drop in the level of incentive pay in 2015 will definitely result in a decrease (or a lesser rise) in labour productivity in 2016. In addition to this, the distribution of bonuses and inducement payments among the employees in different positions is quite varied and disproportionate. In this way, it would be possible for a large group of people to become significantly undermotivated or demotivated even with a general level that seems satisfactory.

When focusing on the payment motivation ratio, we observe its gradual growth from 0.96 in 2013 to 1.14 in 2015 (table 2). If the ratio is less than 1, it means that the payment level at PJSC “Dubnomoloko” is less than the average level in the industry. As a result it raises the staff turnover and reduces personnel loyalty and engagement.

Let us zoom in on the productivity/payment growth ratio. The results show that the salary level is rising faster than labour productivity (the productivity/payment growth ratio is less than 1). Consequently this demonstrates the low motivating effect of the salary level on employee performance.

We assume that the low level of personnel performance is related to inadequate financial compensation and to the defects in the salary structure. Definitely, an effective financial reward system includes an obvious link with employees’ everyday objectives, with the corporate goals, and with the way the personnel are rewarded. We can draw the tentative conclusion that if any kind of ambiguity arises in this communication, then it will decrease or eliminate the effect of the compensation. It is certain that high level of employee satisfaction enhances their performance and decreases the staff turnover, which in turn reduces the cost of recruiting, selecting and training new employees.

There is a strong possibility that monetary rewards enhance employee motivation and loyalty, and as consequence their productivity and organizational efficiency. It is probable that employees view bonuses and inducement payments as an award, and believe that they must repay this by acting in the interests of the organization, and more than that, by doing something above and beyond their usual responsibilities.

However, it is obvious that under the current economic conditions financial remuneration is not the only factor influencing labour productivity and performance. There is a definite possibility that the level of personnel motivation can be affected by a variety of different factors.

We now turn to the problem of the distribution of influence between financial and non-financial motivators on different groups of personnel. A company should definitely seek to motivate personnel of all the hierarchy levels. For the purposes of this study we considered three groups of personnel at PJSC “Dubnomoloko”, the managerial staff, professional staff and support staff. The managerial staff has been divided into top-level, middle-level and low-level managers.

Table 3 demonstrates the significance of financial and non-financial motivational factors for different staff groups.



**Table 3. Distribution of influence between financial and non-financial motivators on employees at PJSC “Dubnomoloko”**

Personnel category	Number	%	Staff with higher education		Distribution of influence between financial and non-financial motivators, average per group, %	
			Number	%	financial	non-financial
Managerial staff	63	9.68	63	100	65	35
■ top-level managers	6	0.92	6	100	58	42
■ middle-level managers	34	5.22	34	100	63	37
■ low-level managers	23	3.53	23	100	69	31
Professional staff	437	67.13	303	69	78	22
Support staff	151	23.20	33	22	89	11
Total	651	100	399	61	79	21

Source: calculations based on the questionnaire conducted by the Human Resources Department at PJSC “Dubnomoloko”.

A total of 684 employees were involved in the questionnaire conducted by the Human Resources Department at PJSC “Dubnomoloko” in 2015. The response rate of the questionnaire was 95.18%. The findings show that a total of 63 managers at all levels have higher education, while 69% of the professional staff and 22% of the support staff have higher education. It is interesting to note that the distribution of influence between financial and non-financial motivators is different with different groups of personnel. The results of the questionnaire show that managers, including top-, middle- and low-level value both financial and non-financial methods of motivation to a considerable extent. On average respondents from this group state that out of 100% of the factors, 35% are connected with non-financial indicators. For the group of professionals this figure goes down to 22% and for support staff to 11%. Thus the higher the position is, the bigger is the influence of non-financial motivators on employee performance. This statement is true in relation to the indicators as higher education. It means that a greater proportion of educated people are not focussed only on financial stimulation.

To sum up, we feel certain that when different motivation methods are provided across multiple levels of a hierarchy, their impact on employee performance is much stronger than when a single-level approach is used.

## 5. CONCLUSIONS

It is our firm conviction that it would not be useful to introduce non-monetary rewards at PJSC “Dubnomoloko” at present. This is largely relevant to support staff and professionals.



At the same time, we are certain that the implementation of non-monetary methods should be differentiated across the range of categories of personnel. Moreover, intangible motivation should begin at the level of the top management.

We feel very strongly that to produce any beneficial effect from noncash reward system, it would be necessary to provide a proper salary level not only at PJSC “Dubnomoloko” but also on a countrywide level. Initially, the primary effort should be focused on improving (or in some cases establishing) a motivating function within the financial reward system. Only after that should all the intangible incentives be considered.

In conclusion, we are convinced that employees are much more interested in an increase in the specific components of their compensation package than in the total payment received. In other words, the precise element which we increase in the overall payment is extremely important. It is our firm conviction that the structure of the remuneration is of great significance. Moreover, we discovered that the productivity of employees increases if they fully understand what factors actually led to the increase in their salary-specific steps they took, ideas that they conceived, or results that they obtained. Our comprehension of the reasons why this specific component of the whole package was influenced or altered intensifies the result. Therefore, we reiterate our opinion that it is necessary to consider not only the effect of the overall payment level on personnel productivity, but also the manner in which it is structured.

The findings presented in this research paper have the potential to help managers and other interested parties to identify the financial stimuli that enhance employee performance. For organizations, relevant information about the motivating effect of various financial incentives is a helpful instrument for effective decision-making. The results of the study can provide individuals in management with the following recommendations for improving the system of financial rewards.

Management should devote much more attention to the structure of the financial reward.

Management should always bear in mind that a salary actually begins to function as a motivator only when it is above the industry and/or location level. It can then encourage personnel loyalty and engagement. On the contrary, when the salary level is lower than the level in the industry as a whole, or in that location, it not only removes the motivating influence but can end up rather demotivating workers, possibly adding to the danger of an increase in employee turnover.

When there is an increase in any component of the remuneration package, it should be based on identifiable reasons, and these reasons should be made extremely clear to the worker involved.

The prospect of giving a salary increase thus needs to be considered very carefully beforehand, because of the possibility that it could actually produce a demotivating effect on employees.

Beyond the points which have been discussed above, it will be necessary to devote future research to an exploration of the complicated relationship between

financial and non-financial incentives, something which it was not possible to deal with within the scope of this present study.

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## WPLYW NAGRÓD MONETARNYCH NA MOTYWACJĘ PRACOWNIKÓW

**Streszczenie:** Celem artykułu jest rozpatrzenie wpływu bodźców monetarnych na motywację pracowników. Przeprowadzono rozliczenie związku między bodźcami monetarnymi i wydajnością pracy, jako najbardziej oczywistym ilościowym wskaźnikiem motywacji pracowników. W pracy rozpatrzono elementy konstrukcyjne funduszu pracy, a także określono ich wpływ na wydajność pracy. Wyniki badania pokazały, że istnieje pozytywna korelacja między dopłatami, premią, nagrodami finansowymi i wydajnością pracy, w tym czasie jak istotnego wpływu pensji i ideksacji na motywację nie było stwierdzono. Uzasadniono odpow-

iednie rekomendacje dla menedżerów, co do doskonalenia systemu nagród finansowych w celu zwiększenia motywacji pracowników.

**Słowa kluczowe:** nagrody monetarne, wydajność pracy, motywacja pracowników, efektywność działalności organizacji, systemu motywacji.

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