The Effect of Monetary and Non-Monetary Rewards on Employee Engagement and Firm Performance

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Abstract

This research explores the concept of employee engagement and how employee engagement can be strengthened by offering monetary and non-monetary rewards to employees. The objective of this research was to assess the relationship between employee engagement and high firm performance. For testing hypothesis data were collected through questionnaires from 250 respondents. Hierarchical linear regression was used to estimate the effect of rewards on firm performance mediated through employee engagement. Results disclosed the fact that monetary and non-monetary rewards can increase the level of employee engagement and high level of employee engagement is an important cause for high firm performance.

Keywords: Employee Engagement, Monetary Rewards, Non-Monetary Rewards, Perceived Organizational Performance

1. Introduction

This study explores the importance of monetary and non-monetary rewards for development of employee engagement, and how this employee engagement affects firm's overall performance. Most of the research studies have shown consistently that the encouragement and appraisal or reward system for the employees resulted in higher employee retention rates, productivity, and job satisfaction.

The bond between the employer and the employee is very important and crucial. This relationship is based on the respect from the employer to the employee to motivate him/her to a larger extent. The employer has to give the respect to the employee by different means such as symbolic rewards after observing the performance of the employee. By these types of symbolic rewards, employee can get motivated and connected to their work and the comfortable environment created by the authorities is very helpful to make the employee devoted and committed to their job honestly and faithfully.

Rewards include both monetary and non-monetary rewards. Monetary rewards enhance the direct satisfaction of employees and non-monetary rewards are helpful for the recognition of employees and that recognition is a motivational tool for the employees and leads to the work engagement (Burgess &Ratto, 2003). Employee engagement is based on the employee attitudes, behaviors, and opinions about the firm and these attitudes and opinions are built internally by the firm. So, these attitudes and opinions take birth in the employee's mind by the employer's behavior towards the employee. The majority of literature reviewed highlighted the current trend of workforce engagement and the importance of people at different organizational levels, but it seemed to lose sight of the real people behind the concept (Ryan et al., 1986).

Stakeholder theory asserts that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions. The corporation is socially responsible for utilization of its resources with such effectiveness, which is beneficial for society and for generation of justified and real nature benefits for stakeholders.

Monetary incentives can boost motivation, but non-monetary incentives are more effective motivators because these incentives have an intrinsic motivational impact on the workers. So, workers who are intrinsically motivated naturally enjoy their work or job. Non- monetary incentives are rewards other than money, for instance recognition, training and development for employee's learning needs, and flexibility of working hours.

Non-monetary incentives provide a strong sense of security and stability of employment for the workers or employees. When employees come to know that their positions (or job) are secure and stable, they work hard to get more recognition and respect. In this way, they are motivated and inspired entirely by their inner self. The organizational performance can be raised to the highest level by offering non-monetary rewards to the workers/employees (Heyman and Ariely, 2004).

This study is to measure the effects of monetary and non-monetary rewards on the employees' engagement in Pakistan. Most businessmen and managers emphasize on the resources, but neglect the main resource of human capital in the organizations. In this research work, we will also study the importance of employee engagement for organizational performance because according to many previous studies done on employee engagement it is proved that it plays a vital role in organizational performance. Monetary and non-monetary rewards are the tools to motivate the employees to be engaged with their organization and this engagement results in better performance from employees in the organization.

1.1 Objectives of the Study

The Main objectives of this research study are:

1. To determine the effects of monetary and non-monetary rewards on firm performance.
2. To check the effect of employee engagement as mediating variable.
3. To guide researchers and scholars regarding the importance of employee engagement in developing countries.

2. Literature Review

Organizations play a vital role in the development of a prosperous economy. Socially responsible organizations are not just adamant for the economic part of the economy, but are also very important for a healthy and prosperous society. The firm is responsible for improvement of work life of its workforce; human resource department of any organization is responsible for effective workforce.

HRD, though, can develop effective strategies for development of high levels of employee engagement. Employee engagement strategies are the essence of any HRD department. Employee engagement is defined as an employee with high morale, high level of commitment, and enthusiasm; who is more loyal to the organization and is more directed towards work. The Gallup Organization, potentially the most widely recognized name associated with employee engagement due to their bestselling book, "First, Break All the Rules," defines engaged employees as those who, "work with a passion and feel a profound connection to their company" and "drive innovation and move the organization forward" (GMJ, 2006 p # 1).

Lazear (1986) also positively suggests that by adding financial rewards to the compensation of employee for the sake of motivation can attract more geared workers to the organization. By other point of view, Lazear (2000) also 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. Lazear (2000) showed a positive relation between employee engagement and rewards and firm performance.

Intrinsic rewards have gained significant importance in recent years (Thomas, 2009). They mention managerial support and their contribution to raise the level of intrinsic motivation in employees by contributing in intrinsic rewards, as building blocks. They state that, intrinsic rewards are based on the positive feelings that employees get from their work engagement. According to Thomas (2009), these intrinsic rewards reinforce the self-management efforts and motivate employees to be engaged with work. An Implementationof intrinsic reward creates positive feelings and experiences among employees and management.

In the last decades, many organizations have turned their focus on skill-based pay plans. By which the compensation of employees is based on employee's new skills and knowledge and mystery talent rather than for holding same position in organization. By implementation of skill-based plans, employees work more effectively and focus on their new skills and it creates the innovation performance system. This system of skill-based pay focuses on continuous learning and creates culture, where employee's hidden skills are highlighted (London and Smither, 1999). However, this system of skill-based pay plans is still based on financial compensation and economic exchange between the employee and employer.

According to Osterloh and Frey, (2000), creative workers have two main reasons for being intrinsically motivated. And these reasons must be addressed by organizations for better performance. First reason, intrinsic motivation is needed for creating and exchanging the knowledge and ideas. They found that, motivated employees are inherently interested towards engagement with their work. Also, these employees will share more information with colleagues, and by this fact, they generate or create more knowledge throughout the organization. Second, intrinsic motivation is to enhance the time, which is owed to job-related tasks and to improve the productivity level of individuals in the organization. By giving this knowledge, employees have relative carefulness about the time for these productive activities, their willingness to devote the time for these productive activities, is crucial for the success of organizations.

Yahya and Goh (2002) state that incentives based on groups or teams could raise the knowledge creation, transfer of knowledge and knowledge acquisition. Strumpel (1975), states that, the employees with stable positions in the organization, prefer the non-material aspects of the job. Mathios (1988) urges that non-monetary rewards are preferred by highly educated people.

Shives and Scott (2003) suggested the gain sharing approach to discuss the impact of rewards on employee motivation and engagement towards the organization. Through gain sharing approach, organizational effectiveness can be enhanced to great levels. Through gain sharing approach financial bonuses can enhance the productivity of employees and employees should be rewarded with financial incentives for extra efforts. This approach mainly focuses to decrease the costs for a portion of that reduction should be converted into bonuses to employees to motivate them. On the other hand, profit sharing is different from daily basis productivity gain. Profit sharing bonuses are annually paid bonuses and most of the employees often believe, managers will forget their promises and would not pay these bonuses (Burton Kelli, 2012).

According to Van Zyl (2000) despite having lots of evidence of the motivational impact of intrinsic rewards on employee job performance, many managers still count money as the main motivational tool for employees and focus on money. Furthermore, VanZyl (2000), concluded that a bonus or 13th check is a great consideration among employees and even it could remain as a great motivation for employees to be engaged with their jobs and remain with the firm. He argued that money is always a great motivational tool from the start of the job in any field.

Al-Wathnani (1998) also discussed the incentive's role on the efficiency of employees. Al-Wathnani (1998) checked the impact of incentives on the job satisfaction of employees in the security organization. Incentives are positively related to employee work engagement and job satisfaction, but the most important and valued incentives are participation in decision making, financial allowances, promotions, leaves and allowances for medical treatment. Less demanded incentives and less motivational incentives are verbal appraisals, letter of thanks and financial allowances for work at distant and isolated areas.

Jeffery (2002), in his study, investigated non-monetary incentives and their ability to control the various psychological needs and that's why non-monetary incentives have a deeper and long-term effect than monetary incentives on motivation. The study explained that non-monetary incentives are highly visible and have greater value as a trophy. Non-monetary incentives bring a higher utility level. Jaffery (2002) also calculated the trophy value index of non-monetary incentives to check argument. In his study, results showed that employees enjoyed the gifts, pride, respect and recognition for long term period. Employees enjoy telling their family and friends about their respect and gifts. Results showed a significantly higher trophy value of non-monetary gift. By analyzing the motivational strategies, Jeffery (2002), states that cash incentives don't match the level of satisfaction which is gained by non-monetary incentives (Trophy value). By explaining in detail in his work, he describes that cash incentives' benefit is short-term; while the non-monetary incentives have long-term benefits. In his study, monetary rewards are mentioned as compensation, while non-monetary rewards represent the respect and recognition.

Kube et al. (2008) credited more output in non-monetary gift as compared to monetary gifts. Non-monetary gifts contribute a great deal to employee satisfaction and this satisfaction shows long-term results. Kube et al. (2008) also carries the social exchange phenomenon. In his study, results show the higher impact of non-monetary incentives on social exchange theory compared to monetary rewards. In another study Kube et al. (2006) describe that monetary rewards are beneficial in short-term period and ineffective for long-term period. He also states that non-monetary rewards have a significant and consistent effect on their satisfaction.

Due to the increasing importance of incentives in every field, Steen (1997) conducted the study in IT field; he observed that the IT professionals are keen to gain the non-monetary incentives as compared to higher level positions within firms or the increment in pay. They prefer the non-monetary incentives and which also include the flexibility in working hours and take home work.

Schaufeli et al. (2002) regarding employee engagement described in detail the three dimensions of work engagement in his study. Vigors described as the energetic behavior of the employee and also devoted hard work to one's work and job, even in any of problematic situations. And the second dimension of Schaufeli (2002) was dedication. Dedication exhibits the employee experience about work, his pride about his work, and meaningfulness of his work. According to this study, the contents of dedication are much inspiring. The third and last dimension of work engagement is absorption. Absorption is, how employees get immersed in their work and also from which factors employees are engaged in work and get pleasure and satisfaction about the job. Absorption also showed that employee must concentrate on his work and must be awarded with rewards for their work done for the betterment of the organization. Six areas of the work environment will lead to either the burnout or engagement to work. For example, control, workload, social support, community, perceived fairness and values, and the last one are rewarded and recognitions. They argued that those six factors are the base of employee attitude or behavior towards their work. By manipulating these factors in well-organized manner the management could raise the level of employee engagement and control high turnover.

Saks (2006) conducted a study to examine the employee engagement role in service sector employees in eight different European countries. They focused on four economic sectors, retail trade, finance & banking, telecoms, and public hospitals. They observed country wise differences in the matter of employee engagement. The engagement of employees is based on job demands and job resources, for example job autonomy and social support. Social support includes different types of motivational factors like job enrichments, job empowerment and monetary and non-monetary rewards. They also proposed that engagement of employees towards organization can be achieved by implementing and creating a socially supportive environment. Whereas the job demand negatively relates to the work engagement. They represent the work engagement as the outcome of job demand and job resources.

Advocating the engagement issues, Frank et al. (2004) showed a strong link between the employee engagement and the organizational performance. He mentioned employee engagement as a human resource practice which has a strong impact by engaging workers on the organizational productivity. Frank et al. (2004) demonstrated the positive relation between the engagement of employees and the satisfaction of employees. In the results of his study, Frank et al. (2004) explains that engaged employees are also very effective for the financial performance of the organization.

The above mentioned literature provided strong grounds for the hypothesis of the study and from the above discussion, it is very much evident that monetary and non-monetary rewards positively influence employee engagement; which, in turn, affects the firm's performance**.** Thus hypotheses are formulated as follows:

2.1 Hypotheses

H1: Monetary rewards have a positive effect on perceived organizational performance.

H2: Non-monetary rewards have a positive effect on perceived organizational performance.

H3: The effect of monetary and non-monetary rewards on perceived organizational performance is mediated through employee engagement. (Figure 1: Theoretical Framework)

3. Methodology

This cross sectional study is conducted to investigate the effects of monetary and non-monetary rewards on the firm's performance and employee engagement among the people working in diversified organizations in Faisalabad. This study is based on quantitative approaches and survey technique is used for collection of responses. The sample was collected with random sampling technique.

3.1 Sample

The study area was different organizations of the City (Faisalabad). Organizations included in the survey are banks, universities, textile industry, and private sector. Due to limited time and other resource constraints total 50 diversified organizations were selected. Total 300 questionnaires were distributed from which 250 questionnaires were received back. Thus, the response rate was 83.33%. This study had an objective to get a response from all three layers of management of the business organizations (top, middle and lower level of employees) because they can give proper representation about employee engagement in any organization. Questionnaires were distributed among banking sector employees, teachers, textile employees, and other employees of private and public sector organizations.

3.2 Measures

3.2.1 Monetary and Non-Monetary Rewards

The independent variables, monetary and non-monetary rewards were measured by the questionnaires taken from the study of Al-Nsour (2012). This questionnaire contains 16 items measured on 5-point likert scale.

3.2.2 Employee Engagement

The tool for measurement of employee engagement was adapted from Maslach & Schaufeli (2001). It includes 17 items based on three main dimensions vigor, dedication, and absorption. We, however, measured employee engagement as a composite variable rather than measuring three separate dimensions. The items are measured on 5-point likert scale.

3.2.3 Perceived Organizational Performance:

Firm performance can be measured by different methods like from Return on Assets (ROA) and Return on Equity (ROE) and Sales Growth. Firm performance can also be measured by questionnaire survey. In this study questionnaire survey method was chosen to measure the perception of firm performance which is labeled as perceived organizational performance in organizational literature. The scale to measure perceived organizational performance was adapted from Masood (2010). This questionnaire includes 10 items measured on 5-point likert scale.

3.3 Data Analysis

This study used both statistical forms: descriptive and inferential. Descriptive statistics were used for summarization of data while inferential statistics (linear regression) were used for investigation of cause and effect relationship between independent and dependent variables. Hierarchical Regression was conducted to test direct as well as indirect effects of monetary and non-monetary rewards on perceived organizational performance (mediated through employee engagement).

4. Results

(Table 1: Age and Gender Distribution)
Table 1 presents gender and age distribution of the sample. The sample consisted of 128 (51.2%) males and 122 (48.8%) females showing an approximately equal gender distribution. The vast majority of respondents were between 20–35 years old (164 respondents, 65.6%). Sixty two respondents (24.8%) were 36–45 years old and twenty four respondents (9.6%) were >45 years old.
(Table 2: Descriptive Statistics[a])

Table 2 presents descriptive statistics of the data. This table reports means and standard deviations of variables; reliability coefficients (cronbach alpha); and Pearson correlation coefficients between the variable pairs. The reliability values show that the internal consistency of all the variables is good as all the cronbach alpha values are greater than 0.70 (Nunnaly, 1978). The correlation coefficients show that monetary and non-monetary rewards have a significant positive relationship with organizational performance (0.548 and 0.556 respectively, $p < .01$). Monetary and non-monetary rewards show significant positive correlation also with employee engagement (0.258 and 0.309 respectively, $p < .01$).

We used hierarchical linear regression for parameter estimation. In the first step, independent variables (monetary and non-monetary rewards) were regressed on dependent variable (perceived organizational performance). In the second step, independent and mediating variable (employee engagement) were regressed on the dependent variable.

(Table 3: Regression (Predictor: Monetary Rewards)

(Table 4: Sobel Test[a])

Table 3 reports hierarchical regression results for the effect of monetary rewards on perceived organizational performance. In model 1, monetary rewards are regressed on perceived organizational performance. Regression coefficient of monetary rewards shows a significant positive effect on perceived organizational performance ($\beta = .55$, $p<.01$).In model 2 monetary rewards as well as employee engagement (mediating variable) are regressed on perceived organizational performance. Both variables are significant. R square for model 1 is 0.30 and for model 2 is 0.34. Thus, there is a gain of 0.04 in R square with the inclusion of mediating variable in the model. This is an indication of the existence of mediating effect. Furthermore, regression coefficient of mediating variable is significant ($\beta = .21$, $p<.01$), thus corroborating the presence of mediating effect. However, to establish the significance of indirect effect, we used Sobel test (Sobel,1982). Sobel test results are reported in table 4. The results show that the indirect effect is significant (.0304, $p < .01$). Bootstrap results also show that the indirect effect is significant at.01 level. These results show that monetary rewards have a positive impact on perceived organizational performance and this effect is mediated through employee engagement. The results support hypothesis 1 and hypothesis 3.

(Table 5: Regression (Predictor: Non-Monetary Rewards)

(Table 6: SobelTest[a])

Table 5 presents regression results for the effect of non-monetary rewards on perceived organizational performance. The effect of non-monetary rewards on perceived organizational performance is significant ($\beta = .56$, $p<.01$). Delta R^2 is .03 showing a rise in R square with inclusion of mediating variable in the regression. Moreover, the coefficient of mediating variable in step 2 is significant showing that mediating effect is present. Again, we used Sobel test to establish the significance of indirect effect (table 6). Sobel test establishes the significance of indirect effect (.0388, $p < .01$). Bootstrap results show that indirect effect is significant at .05 level. Thus, hypothesis 2 and hypothesis 3 are supported.

5. Discussion

This study is conducted to investigate the relationship between monetary rewards, non-monetary rewards, and employee engagement and effect of these variables on firm performance. There is literature available on relationship of monetary, non-monetary rewards, and employee engagement in international scenarios, but in Pakistan and in developing countries, there is a dire need to explore this relationship. This study is to provide a rationale for development of human capital in Pakistan. In this study, it is proved that, employee engagement plays a vital role as mediating variable between monetary and non-monetary rewards and performance of the firm.

Monetary rewards are traditionally accepted in the international scenario and it is evident that monetary rewards (bonuses, salaries, increments, paid holidays) have importance in business. Now-a -days developing countries are recognizing the importance of non-monetary rewards.

Organizations in developed countries are realizing the importance of employee recognition. If employees are well recognized for their efforts, then they feel satisfied and they become willing to put more effort. In many big business organizations in developing countries are also realizing the importance of recognition and businesses are offering titles like" employee of the month" or "employee of the year" to the outstanding employees. There are a number of ways to appreciate and reward the employees for their efforts without spending money.

Organizations can develop human capital in a variety of ways, but reward-based trainings have gained more consideration in this regard. Human capital theory is based on the knowledge and cognitive abilities which individuals have and this kind of abilities and knowledge, then leads to more productive and efficient potential activity. Investment in means of training and development can result in greater fruit for any organization, but the rationale behind these trainings is an adamant aspect in an organizational context.

Investment in trainings and development of employees can enhance the capabilities of employees and in turn employees will perform in an efficient and innovative way.

The rewards can give deep satisfaction related to the inner desires of employees related to money and it can be helpful to employees to improving themselves in the performance of duties.

This study will help organizations to find out ways like reward-based trainings and reward-based tasks for growth of employee engagement in organizations. This study will further enhance the emphasis of organizations in developing countries regarding reward-based systems.

6. Conclusion

It is concluded that in the cultural context of Pakistan; monetary, non-monetary rewards are much necessary for high employee engagement. Employee engagement is necessary for high business return because highly engaged employees will put their proper efforts in organizations and organizations will grow with the passage of time. The objectives of this study are to measure the effects of monetary and non-monetary rewards on employee engagement and firm performance. The study is based on the objective that employees are engaged deeply with organization on the basis of rewards and rewards have a positive impact on the employee's relationship and engagement.

Multiple regression results showed that monetary, non-monetary rewards and employee engagement have a positive impact on firm performance. Inferential statistics supported the proposed hypothesis and rejected the null hypothesis. So, it is concluded that the rewards have great influence on employee engagement and employee engagement will provide rational grounds for increased organizational performance.

6.1 Managerial Implications

The results of the study provide logical rationale for following recommendations:

- Organizations should plan proper monetary rewards, non-monetary rewards for their employees in Pakistani firms.
- Firms should examine properly effect of these monetary and non-monetary rewards on the firm's performance
- Organizations should plan proper incentives plan for improvement of employee engagement.
- Excess of monetary or non-monetary rewards could also be harmful for the organization because these rewards can increase the fake needs of employees.
- There must be balance in monetary and non-monetary rewards; none of those rewards importance could be neglected.
- Employee engagement factors like motivation, recognition of employee, given some extent of power to employee must be kept in view.

6.2 Limitations

Limitations of the study are time and resource constraints. For checking the relationship there is need of time to see the mediating effect of employee engagement because employee engagement is a temporal phenomenon. Longitudinal studies can be conducted to understand the true mechanics of considered relationships.

Limited geographical location is also a limitation for the analysis. It makes generalizability of the findings less affirmative.

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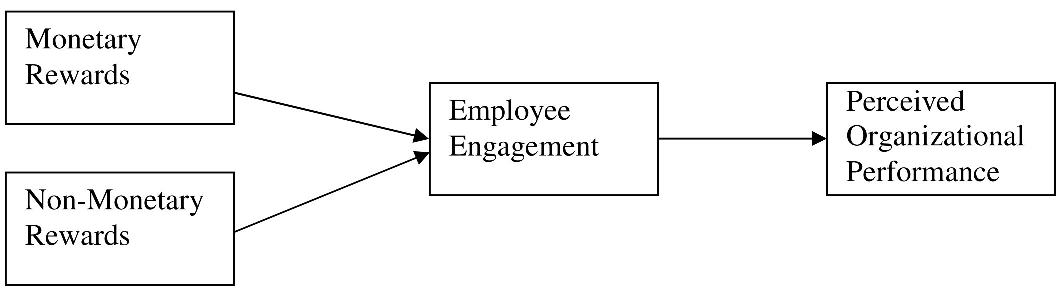

Figure 1: Theoretical Framework

Table 7: Age and Gender Distribution

	Frequency	Percent
Gender		
Male	128	51.2
Female	122	48.8
Age		
20-35	164	65.6
36-45	62	24.8
46 and above	24	9.6

Table 8: Descriptive Statistics[a]

	Variable	Mean	SD	1	2	3	4
1	Monetary	3.460	1.033	(0.919)			
2	Non-Monetary	3.516	0.844	.780**	(0.896)		
3	Engagement	4.026	0.602	.258**	.309**	(0.892)	
4	Performance	3.795	0.583	.548**	.556**	.336**	(0.837)

** p< .01 * p < .05

[a]Values at diagonals in parenthesis show Chronbach alpha

Table 9: Regression (Predictor: Monetary Rewards)

Perceived Organizational Performance[a]

Variables	Model 1	Model 2
Predictor		
Monetary Rewards	.55**(.03)	.49**(.03)
Mediator		
Employee Engagement		.21**(.05)
Overall R	.54	.58
Overall R^2	.30	.34
Overall Model F	106.20**	63.78**
ΔR^2		0.04

** p< .01 * p < .05

Dependent variable: Perceived organizational performance

[a]Entries are standardized coefficients, and values in parentheses are standard errors.

Table 10: Sobel Test[a]

Indirect Effect and Significance Using Normal Distribution

	Value	SE	LL95CI	UL95CI	Z	Sig(two)
Effect	.0304	.0108	.0093	.0516	2.8197	.0048

Bootstrap Results for Indirect Effect

	Data	Mean	SE	LL99 CI	LL95CI	UL95CI	UL99CI
Effect	.0304	.0304	.0135	.0009	.0084	.0629	.0737

[a] Dependent: Org. Performance; Independent: Monetary Rewards; Mediating: Employee Engagement

Table 11: Regression (Predictor: Non-Monetary Rewards)

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Perceived Organizational Performance[a]		
Variables	**Model 1**	**Model 2**
Predictor		
Non-Monetary Rewards	.56**(.04)	.50**(.04)
Mediator		
Employee Engagement		.18**(.05)
Overall R	.56	.58
Overall R^2	.31	.34
Overall Model F	111.12**	63.40**
ΔR^2		0.03

** p< .01 * p < .05

[a]Entries are standardized coefficients, and values in parentheses are standard errors.

Table 12: SobelTest[a]

Indirect Effect and Significance Using Normal Distribution

	Value	**SE**	**LL95CI**	**UL95CI**	**Z**	**Sig(two)**
Effect	.0388	.0141	.0113	.0664	2.7601	.0058

Bootstrap Results for Indirect Effect

	Data	Mean	SE	LL99 CI	LL95CI	UL95CI	UL99CI
Effect	.0388	.0388	.0180	-.0027	.0066	.0741	.0965

[a]Dependent: Org. Performance; Independent: Non-Monetary Rewards, Mediating: Employee Engagement