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A Study of Impact of Incentives on the Productivity of employees

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Abstract

Incentive programs aim to motivate and reward employees for their job performance and achievements. These programs can include various financial benefits such as bonuses, commissions, profit-sharing, and stock options. Additionally, non-financial rewards like recognition, promotions, increased time off, and training opportunities are also employed. While organizations may have different specific goals for their incentive programs, the common objectives include enhancing productivity, elevating staff morale, reducing employee turnover, and fostering a culture of performance and excellence.

This study aims to verify the impact of incentive on the productivity of employees of Organization as well as to analyse whether providing incentives, such as bonuses or other rewards, to employees can result in heightened workplace productivity. The study typically includes collecting data on employee productivity before and after the implementation of the incentive program, and then comparing the results to determine if there is a significant correlation between incentives and productivity. The research is empirical and explanatory basically based on primary data collected through google questionnaire. The sample survey size was 150 respondents working in manufacturing industries. Descriptive statistics summarize the characteristics of a data set. For the hypothesis testing multiple Linear Regression analysis was used.

Keywords: Incentives, Motivation, employee, Productivity, performance, Performance, Bonuses.

Introduction:

Every employee seeks incentives, especially in the form of financial rewards, as it acts as a potent motivator. The performance of employees holds a pivotal role in a company's endeavour to achieve its objectives. Organizations expect incentives to boost employee performance, increase work productivity, nurture loyalty, and instil discipline.

The typical aim of studies exploring the impact of incentives, such as bonuses or other rewards, on employee productivity is to determine whether these measures lead to increased efficiency in the workplace. In such studies, data on employee productivity is typically gathered before and after the introduction of incentive programs, and the results are compared to assess whether a significant correlation exists between incentives and productivity. The overarching goals of incentive programs revolve around employee motivation and recognition for job performance and achievements. These programs encompass both financial benefits, like bonuses, commissions, profit-sharing, and stock options, as well as non-financial rewards such as recognition, promotions, increased time off, and training opportunities. While the specific purposes of incentive programs may vary based on organizational objectives, they commonly share general goals, including the enhancement of productivity, elevation of staff morale, reduction of employee turnover, and the cultivation of a culture centred on performance and excellence.

As per Hicks (2003), incentives are tools designed to bring about a particular behavioural change. While performance pertains to how effectively an employee accomplishes assigned tasks through effort and skill, incentives serve as inducements for desired actions. Incentive pay, as outlined by Armstrong (2009), is a type of compensation provided to employees upon achieving certain job performance benchmarks. Consequently, the primary goal of incentive programs is to inspire improved performance. Team-oriented incentives exhibit a significantly greater impact on performance when contrasted with individually focused incentives.

Companies have instituted employee incentive programs with the aim of motivating personnel and enhancing performance in both individual and collaborative settings. In the face of a competitive job market, small businesses have adopted incentive strategies to attract both upper management and employees while simultaneously elevating overall productivity. What was once primarily a practice of large corporations has now become more widespread. Awards and prizes are recognized to exert a considerable impact on employees' perceptions of their roles and their subsequent behaviour. Individuals who are skilled and knowledgeable may find their motivation influenced by incentives that align with their values and preferences, as incentives can encompass anything deemed valuable and advantageous to the recipient (Milkovich et al, 2011).

1.1 Objectives of study

1. To examine the correlation between financial rewards and employee performance within the organization.
2. To assess the efficacy of various categories of financial incentives.
3. To examine the impact of financial incentives on employee motivation and job satisfaction.

1.2 Hypothesis

H0: There is a no relationship between financial incentives and employee performance in the organization.

H1: There is a relationship between financial incentives and employee performance in the organization.

2 Literature review

In contemporary organizations, both in the private and public sectors, particularly in developing countries like India, a significant challenge revolves around ensuring high levels of motivation among employees to meet organizational goals. This challenge arises due to the often divergent personal goals of workers compared to those of the organization. Recognizing that well-motivated employees serve as invaluable assets driving organizational activities toward goal achievement, their motivation becomes a critical factor. To stay dynamic, competitive, and accomplish predetermined targets, organizational management must comprehend the importance of employee benefits as motivational tools. This understanding should guide the formulation of policies that align with this objective, as highlighted by Ayandele and Etim (2020).

Previous studies provide compelling evidence underscoring the importance of the correlation between compensation, rewards, employee behavior, and organizational performance. Pritchard et al.'s (1988) research demonstrated notable outcomes: group-level feedback resulted in a 50% increase in productivity compared to the baseline, group goal setting led to a 75% increase, and the implementation of group incentives saw a substantial 76% improvement over the baseline.

The overarching business challenge revolves around owners who, by failing to motivate employees and curb turnover, may encounter financial losses. The specific issue pertains to certain small business proprietors lacking effective strategies for implementing financial incentives that would inspire their employees to enhance profitability (McManus & Mosca, 2015). Moreover, challenges associated with financial incentives on worker performance are evident in various business organizations. These include inadequate incentive packages, a significant factor impacting employees' commitment and productivity, a lack of willingness among employees to improve their performance due to perceived inadequate recognition of their contributions by the organizations, and management's deficiency in the requisite skills for formulating a robust financial incentive policy.

Incentives have long been acknowledged as significant drivers of employee performance. When employees receive fair compensation, it instills a belief that the organization values their contributions. Additionally, if employees perceive that their employers prioritize their well-being and are dedicated to fostering their professional development and personal growth, they are likely to be more motivated to exert greater effort and effectiveness in their work. In this analogy, employees are likened to the engines propelling the organizational vehicle, with incentives serving as the essential fuel. According to Sajuyigbe (2013), a company cannot successfully achieve its stated goals without the dedication and motivation of its workforce. Incentives, whether they take tangible or intangible forms, stand out as the most crucial and valuable elements shaping employees' satisfaction in their careers Syeda Ayat-e-Zainab Ali1, Maryam Afridi, (2016). To ensure the ongoing success of the incentive program, continuous monitoring, evaluation, and adjustments as needed are essential. The program should align closely with the organization's objectives and principles. Regular evaluation and feedback are imperative to keep the program dynamic and motivating for employees, enabling the identification of areas of success and opportunities for growth.

The fundamental principle underlying guiding incentives is that rewarding a specific action or task heightens the probability of the individual engaging in that activity in the future. With repeated reinforcement, the rewarded behavior becomes ingrained or "learned," leading the individual to continue the action even in the absence of incentives. For motivating individuals and enhancing productivity, financial incentives are considered advantageous Jason et al, (2019). Both individual and collective incentives can be employed, aiming to stimulate increased effort and output, resulting in improved outcomes such as profit, productivity, sales turnover, cost reduction, quality customer service, and timely delivery. This monetary reward serves as an additional incentive for successful contributions or enhanced productivity. Emphasizing fairness, monetary remuneration is distributed equitably, aligning with the principle of paying individuals according to their deserving contributions. In incentive programs, the link between remuneration and output is established Cross Ogohi Daniel, (2019).

According to Okoye and Ezejiofor (2013), organizational productivity serves as both an indicator of efficiency and competitiveness and a measure of how effectively an organization operates. It also acts as a gauge for the efficient utilization of resources in achieving predetermined goals.In the context of employee performance, incentives play a significant role. Employees who receive fair compensation perceive their workplace as valuing them. When employees recognize that their employers prioritize their well-being, are committed to advancing their careers, and support personal growth, they are motivated to exert increased effort and enhance their effectiveness. Sajuyigbe (2013) employs a metaphor, likening employees to the engines propelling organizational vehicles, where incentives function as the essential fuel. The absence of a dedicated workforce poses a hindrance to a company's successful attainment of its stated goals.

Lee's (2015) study demonstrates that financial incentives have a substantial impact on the performance of medical personnel, unequivocally leading to heightened motivation driven by the provision of financial incentives. Basu and Kiernan's (2016) research further supports the idea that financial incentives influence positive changes in healthy lifestyles. The discourse raised in these studies closely parallels the subject of motivation examined in this research. Consequently, the analysis in these existing studies serves as a catalyst for undertaking the present research.

3.Research Methodology

This research empirical and explanatory research primarily relies on primary data acquired through a Google questionnaire. The sample survey encompasses 150 respondents employed in manufacturing industries. Descriptive statistics are employed to summarize the characteristics of the dataset. To test hypotheses, multiple Linear Regression analysis is utilized.

4.Result and discussion:

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4.1 Demographic Analysis

Table 1. Gender of respondents

Gender	Percentage
Male	61%
Female	39%

The data reveals a gender distribution within the given population, with 61% respondents are male and 39% are female.

Table 2. Age of respondents

Age	Percentage
20-25	29%
26-30	44%
31-35	19%
36 And Above	8%

The age distribution data indicates a diverse representation within the studied population. The majority respondents are within the age range of 26-30 year, constituting 44% of the sample. Following closely, the age group of 20-25 comprises 29% of the population. Meanwhile, individuals aged 31-35 make up 19%, and those aged 36 and above represent 8%. This analysis provides valuable insights into the age demographics, facilitating a nuanced understanding of the composition and potential variations in different age brackets. Such information is crucial for tailoring strategies or interventions that may be age-specific within the context of the analysis or study.

Table 3. Education of respondents

Education	Percentage
Diploma	11%
Graduation	38%
Post-Graduation	44%
Other	7%

The analysis on data on education highlights the varying educational backgrounds within the studied population. The majority of responses possess a Post-Graduation degree, constituting 44% of the sample. Graduates represent 38% of the population, while those with a Diploma make up 11%. A smaller portion, 7%, falls into the 'Other' category. This analysis provides valuable insights into the educational diversity of the group, enabling a more comprehensive understanding of the composition and potential implications for the context under examination.

Table 4. Income level of respondents

Annual Salary	Percentage
0-1.0 LPA	36%
1.1-4.0 LPA	14%
4.1-6.0 LPA	6%
6.1-8.0 LPA	5%
8.1 & Above	39%

The data on annual salary distribution illustrates the range of income levels within the studied population. The majority falls within the 8.1 & Above LPA category, constituting 39% of the sample. The next significant range is within the 0-1.0 LPA range, making up 36% of the population. Following this, individuals earning in the range of 1.1-4.0 LPA represent 14%, while those in the 4.1-6.0 LPA and 6.1-8.0 LPA categories make up 6% and 5%, respectively. This breakdown provides a comprehensive view of the income diversity within the group, offering valuable insights into potential financial considerations or disparities within the context being analyzed.

4.2 Description based on Incentives and employees Productivity

Table 5. Responses to Survey Statements about Incentives and employees Productivity

Sr. No	Statement	Stronglyy disagrees	Disagree	Neutral	Agree	Stronglyy agrees	Total
1	Emphasis is placed onthe amount of work done in your organization.	102	25	14	3	6	150
2	Do you agree or Disagree that there isneed for a strong commitment of high-quality standard of service at your firm.	46	71	20	5	8	150
3	Product and Service Quality always remainfirst in the organization.	67	35	34	9	5	150
4	Is the Customer focusing the top priority with this Firm.	62	51	17	10	10	150
5	Do you Agree that current Incentive system adopted by thefirm help in increasingproductivity and performance Area?	57	48	26	15	4	150
6	Collaboration withothers was very productive.	52	47	32	11	8	150
7	My Performance levelaffect my salary.	62	49	25	13	1	150
8	Higher productivity allows the employee toreceive higher Incentives	59	48	29	10	4	150

9	I feel that workplace training opportunities encourage me to work better.	29	17	52	33	19	150
10	I am being paid fairlyin comparison to others.	34	37	32	20	27	

1. **Emphasis on Work Quantity:** The majority of respondents (102) strongly disagree that emphasis is placed on the amount of work done in their organization, indicating a perceived lack of focus on work quantity. Only a small number (9) agree or strongly agree with this statement.

2. **Commitment to Service Standards:** A significant number of respondents (117) either strongly disagree or disagree that there is a need for a strong commitment to high-quality service standards at their firm. On the contrary, a smaller proportion (13) agree or strongly agree with this statement.

3. **Product and Service Quality Priority:** The majority of respondents (102) express disagreement with the statement that product and service quality always remain first in the organization. Only a limited number (14) agree or strongly agree with this perspective.

4. **Customer Focus Priority:** A considerable portion of respondents (113) disagrees with the notion that customer focus is the top priority for the firm. However, there is a notable number (20) that agrees or strongly agrees with this statement.

5. **Effectiveness of Current Incentive System:** A majority of respondents (105) express disagreement with the effectiveness of the current incentive system in increasing productivity and performance. Conversely, a smaller number (19) agree or strongly agree with its effectiveness.

6. **Productivity of Collaboration:** The responses are varied regarding the productivity of collaboration with others in the organization. While a significant number (99) either disagree or strongly disagree, there is a noteworthy portion (19) that agrees or strongly agrees.

7. **Performance Level Impact on Salary:** A substantial majority (111) of respondents disagree with the statement that their performance level affects their salary. Only a small number (14) agree or strongly agree with this relationship.

8. **Link Between Higher Productivity and Incentives:** The majority of respondents (107) express disagreement with the idea that higher productivity allows employees to receive higher incentives. Only a smaller number (14) agree or strongly agree with this linkage.

9. **Encouragement from Workplace Training Opportunities:** A significant proportion (81) agrees or strongly agrees that workplace training opportunities encourage them to work better. However, there is still a notable number (48) who either disagree or strongly disagree.

10. **Perception of Fair Compensation:** Respondents are divided regarding the fairness of their compensation compared to others. While a considerable portion (71) disagrees, a significant number (47) agrees or strongly agrees with the statement.

Overall, the survey indicates a range of opinions among employees about the emphasis on work-related factors, service quality, customer focus, incentive systems, collaboration, and the impact of training opportunities on work performance. These insights can guide organizations in understanding employee perspectives and making informed decisions to enhance productivity and satisfaction.

4.4 Testing of hypothesis

Following hypotheses have been framed for this study:

H0: There is a no relationship between financial incentives and employee performance in the organization.

H1: There is a relationship between financial incentives and employee performance in the organization.

For testing of this hypothesis Multiple Linear Regression analysis has been used. The productivity of employees consider as dependent variables while incentives consider as independent variable.

	Coefficients	**Standard Error**	**t Stat**	**P- value**	**Lower95%**	**Upper 95%**	**Lower 95.0 %**	**Upper 95.0 %**
Inter cept	1.0771 74	0.11287 3674	9.543 181	3.28E- 17	0.85410 9199	1.300 239	0.854 109	1.300 239
1	9.1353	9.07302 3189	1.853 193	0.0458 5939	- 0.00898 4772	0.279 637	- 0.008 98	0.279 637

The regression analysis reveals significant findings for the coefficients. The intercept, with a coefficient of 1.0771, is statistically significant ($p < 0.05$), indicating that the estimated value of the dependent variable when all independent variables are zero is highly unlikely to have occurred by chance. The coefficient for Variable 1 is 9.1353, also statistically significant at the 0.05 level, suggesting a meaningful relationship between this variable and the dependent variable. The calculated value of Linear Regression (P-value) was 0.0458 which is less than 0.05, hence alternative hypothesis is accepted and we found that there is a relationship between financial incentives and employee performance in the organization. These results contribute valuable insights into the relationships within the regression model, although additional information, such as the R-squared value, would further enhance the interpretation of the model's overall explanatory power.

Conclusion

This research aimed to contribute to current knowledge by investigating the influence of incentives on employee productivity within a specific organizational context. The impact of incentives on employee productivity has been extensively explored in research and scholarly literature, revealing that well-designed incentives can effectively enhance employee motivation and productivity. Through a literature review and a survey conducted among employees in various sectors of the Manufacturing Industry, the study found that incentives positively affect employee productivity, especially when aligned with organizational goals and values, and tailored to individual needs and preferences. While financial incentives like bonuses and stock options proved effective in boosting productivity, non-financial incentives such as recognition and career development opportunities also played significant motivational roles.

From the analysis of study, it has been found that There is a relationship between financial incentives and employee performance in the organization. These results contribute valuable insights into the relationships within the regression model, although additional information, such as the R-squared value, would further enhance the interpretation of the model's overall explanatory power. The study also identified key design elements crucial for incentive effectiveness, including timing, frequency, criteria, and size. It also noted that group incentives are more effective for complex, collaborative tasks, while individual incentives are better suited for simpler tasks. Despite these benefits, potential drawbacks were identified, such as employees becoming overly focused on incentives to the detriment of other job aspects, and the risk of incentives fostering a competitive culture that undermines teamwork. Hence, the study emphasizes the importance of meticulous design and implementation of incentives to ensure effectiveness and prevent unintended consequences, contributing valuable insights to the existing knowledge on this subject.

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