

NON-MONETARY COMPENSATION PRACTICES AND EMPLOYEE OUTPUT: A CRITICAL REVIEW OF LITERATURE

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Abstract

Employee output is a fundamental determinant of any organisation's general performance and competitiveness edge. A well-managed compensation strategy gives an organization a competitive advantage. It helps to attract the best job candidates, motivates them to perform to their maximum potential and retain them for the long term. Several researches on determinant of output have been done with most of them focusing on the role of monetary reward systems and strategies and their relationship with employee output. This paper sought to review existing literature on non-monetary compensation practices and its role in determining employee output. The study centred on the Reinforcement Theory. Different theoretical and empirical literature related to Non-monetary Compensation Practices and Employee Output were reviewed. The study established that while non-monetary compensation practices are not as popular and robustly developed like monetary compensation, they play a key role in motivating employees towards increased output. The paper recommends that organisations and relevant policy makers should develop and align robust non-monetary compensation policies as they are vital in contributing to general organisational output.

Keywords: *Compensation practices, Non-monetary Benefits, employee output*

1.0 INTRODUCTION

Human resources practices ought to impact employees in the entities where they are practiced and, if done effectively, will ensure desirable worker outputs (Collins et al., 2005). Desirable outputs for the workers result in impressive structural and fiscal results. Structural results (operations) are a type of result that obtains from the operating behaviour of an entity that may comprise high quality impressive products or desirable client feedback on customer satisfaction.

An organization whose employees' output is below the expected levels risks being out of the market competition with the other organizations. Due to its importance, several studies concerning how employee output can be enhanced have been conducted all over the world. For instance, in America, Haenisch (2012) carried out studies to establish Factors Affecting Productivity among Government Workers with specific focus on state of Wyoming. The study revealed that state employees appreciated liberty, and welcomed teamwork, although they felt constrained by inadequate control mechanisms, inadequate information channels and low funds and inadequate personnel. The study recommended for elimination of bureaucracy, better supervise and communication so as to improve productivity.

In Pakistan, Shahzad, Muhammad and Arshad (2014) carried out studies on the transactional and transformational leader styles effect on employee job performance and satisfaction to fiscal health of a firm in bank circles in Islamabad, Pakistan. Results confirmed leader styles that transform had a desirable effect worker performance and firm financial performances than the transactional leadership style. Thus, employee output is strongly linked to work satisfaction and commensurate support work environment.

Despite the understanding by employers on the importance of a motivational work environment for workers, most of them tend to underrate the significance of employee motivation in the attainment of the organizational mission and vision. This is driven by their limited informed understanding of the direct effect of a positive worker-friendly surrounding that encourages them. Factors associated with work environment that are crucial for employee motivation include: management and leadership actions and processes which embolden workers, information openness on important issues affecting workers, honouring workers, rewarding them, training and developing employees, wellness programs like team building, Monitoring, feedback and capacity building from the administration. Above average benefits and compensation, firm organised events and professionally dealing with workers in a transitional process of well set out objectives. This implies that employers have to explore ways of inspiring work environment that encourages employee motivation to work and deliver (Dessler, 2009).

The essence of rewards and associated tools promote positive behaviour among workers making them to give back (Whetten and Cameron, 2016). Human resource management and organisational behaviour studies aver that inducements that are not financially linked are effective worker motivators. Use of non-financial reward schemes to motivate employees derives from Maslow and Herzberg–Hygiene theories of motivation that lay emphasis on motivation and behaviour change. These theories are premised on the attendant factors underpinning the working environment and conditions, which in turn determine the employees' output. For example, contriving an exciting event-filled working surrounding where one leverages their creativity to do tasks and are appreciated will promote motivation and job delivery (Pfeiffer, 1998).

Compensation has become a major subject of discussion as organisations strive to enhance their output and position themselves competitively. According to Armstrong (2014), compensation practice is critical and an integral part of human resources management (HRM) approach to output improvement in organizations. Compensation practices deals with the design, implementation and maintenance of compensation system that are geared to the improvement of organizational, team and individual performance. Similar sentiments are held by Hewitt (2009) who contends that compensation practice has got to do with having a compensation structure in place which employees who perform better are compensated more than the average performing employees. This approach encourages top-performers to work harder and become more productive in the organization.

Armstrong and Brown (2014) see compensation practices as being part of HRM approach to managing people and as such supports the achievement of business objectives by addressing long-term issues relating to how people should be valued for what they want to achieve. Compensation is therefore integrated with other HRM functions, especially those concerned with human resources development. Armstrong further posits that compensation practices is all about developing a positive employment relationship and psychological contract that adopts a total compensation approach which recognizes that there are a number of ways in which people can be compensated.

Organizational compensation system will include anything an employee values and desire that an employer is able and willing to offer in exchange for the employee's contribution. More specifically such compensation

includes financial and non-financial rewards. Financial rewards include direct payment plus indirect payments in the form of employee's benefits. Non- financial reward includes everything in a work environment that enhances a worker's sense of self-respect and esteem by other.

A well-managed compensation plan that gives an organization a competitive advantage helps the organisation to attract the best job candidates, motivates them to perform to their maximum potential and retain them for the long term. To encourage valuable staff members to remain, compensation system must offer and manage competitive rewards which employees feel contented with when they compare their rewards with those received by individuals performing similar jobs in other organizations (Desler, 2013). This paper therefore aims at reviewing extensively the existing theoretical and empirical literature on the concepts of non-monetary compensation practices and employee output.

1.1 Employee Output

Porter (2006) defines employee output as being the efficiency of a worker or group of workers in terms of output in a specific period of time. Employee output is the net sales over total employee's economic measure of output per unit of input. Employee output measures may be examined collectively across the whole economy or viewed industry by industry. In scientific literature, 'output' is defined as the relationship between output and input; between results or proceeds and sacrifices. Companies today are forced to function in a world full of dynamisms and under various challenges, it is therefore more important than ever to have the right fit for the job by having correct employees at the correct job with the right qualification and experience in order to survive the surrounding competition. The successful and prosperous future of an organization is dependent on its skilled, knowledgeable and well experienced workforce (Mutsotso, 2010). That is why training is a fundamental and effectual instrument in successful accomplishment of a firm's goals and objectives. It not only improves them resourcefully, but also gives them a chance to learn their job virtually and perform it more competently hence increasing firms' output.

1.2 Non- Monetary Rewards and Employee Output

Non- monetary incentives are rewards other than money, for instance medical schemes, 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 feel that their positions (or job) are secure and stable, they work hard to get more recognition and respect. 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). Jeffery (2002) investigated non-monetary incentives and their ability to control the various psychological needs and why non-monetary incentives have a deeper and long-term effect than monetary incentives on motivation. The study findings explained that non-monetary incentives are highly visible and have greater value as a trophy hence, brings 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 gifts, pride, respect and recognition for long term period. Kube, Maréchal and Puppe (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 there is higher impact of non-monetary incentives on social exchange theory compared to monetary rewards.

Employee development programmes are important in ensuring continuous updating and upgrading of employees' knowledge, skills, attitudes and competence. According to Lee and Bruvold (2003), investing in the development of employees is central in the maintenance and development of skills, knowledge and abilities of both individual employees and the organization as a whole. Scholars such as Kamoche, Nyambegera and Mulinge (2004) argue that failure by organizations to systematically invest in career development of its employees hurts industrial development and impedes improvement in labour output. Most researchers including Colombo and Stanca (2008), Sepulveda (2005) and Konings and Vanormelingen (2009), showed that employee development is a fundamental and effectual instrument in successful accomplishment of the firm's goals and objectives. The success of training is impeded on correct implementation of all steps of the process; previous analysis of training needs, development and implementation of an adequate training plan and evaluation (Singh & Mohanty, 2012). In conclusion training together with other activities positively affects output and is associated with output increase and staff turnover decrease (Wanyama, 2010).

2.0 THEORETICAL LITERATURE REVIEW

2.1.1 The Carrot and the Stick Theory of Motivation

The carrot and stick theory of motivation was forwarded by an English philosopher Jeremy Bentham, whose ideas were also developed in the early years of the Industrial Revolution, around 1800. Bentham's view was that all people are self-interested and are motivated by the desire to avoid pain and find pleasure. Any worker will work only if the reward is big enough, or the punishment sufficiently unpleasant.

The theory breaks down motivation into two basic components: incentives and fear. Some workers are motivated by the desire to attain additional compensation, a yearning to achieve status and power by "moving up the ladder," or the need for praise. But some workers act out of fear: the fear of losing a job, being reprimanded by a supervisor or not being able to adequately perform an assignment. The various leading theories of motivation and motivators seldom make reference to the carrot and the stick. This metaphor relates, of course, to the use of rewards and penalties in order to induce desired behaviour. It comes from the old story that to make a donkey move, one must put a carrot in front of him or dab him with a stick from behind. Despite all the research on the theories of motivation, reward and punishment are still considered strong motivators (Gunn, 2010).

Gunn (2010) posit that the 'stick', in the form of fear of loss of job, loss of income, reduction of bonus, demotion, or some other penalty—has been and continues to be a strong motivator. Yet it is admittedly not the best kind. It often gives rise to defensive or retaliatory behaviour, such as union organization, poor-quality work, and executive indifference, failure of a manager to take any risks in decision making or even dishonesty. Fear of penalty cannot be overlooked. Whether managers are first-level supervisors or chief executives, the power of their position to give or withhold rewards or impose penalties of various kinds gives them an ability to control, to a very great extent, the economic and social well-being of their subordinates.

The carrot and stick theory of motivation works reasonably well under certain circumstances. The means for satisfying an employee's physiological and his safety needs can be provided or withheld by management. Employment itself is such a means, and so are wages, working conditions, and benefits. By these means the individual can be controlled so long as he is struggling for subsistence. Man lives for bread alone when there is no bread. How then do non-monetary compensation practices fit into the carrot and stick theory? Can the provision or withholding of non monetary compensation practices be sufficient motivation to significantly affect output?

2.1.2 Reinforcement Theory

Reinforcement or Behaviourist theory was developed by B.F. Skinner to account for human behaviour. It states behaviour has its implications (Management Study Guide, 2013). Behaviourism sprung from dejection with inward tendencies of human psychoanalysis out of a group of researchers' dissatisfaction with absence of overt measurable phenomena. In their opinion, it aimed to have Psychology a more "scientific" equal with related fields. Researchers experimented only with overt and quantifiable matter (Funder, 2010).

Modern Science is not in agreement with psychology as Skinner had it. Skinner's methods could find currency in modern industry in stimuli applications in sectors like government, education, prisons, and mental institutions can gain a broader understanding of human behaviour. "In understanding why, any organism behaves the way it does, Skinner saw no place for dwelling on a person's intentions or goals" (Banaji, 2011). External behaviour with its surrounding was key. An important contribution he brought was reinforcement and conditioning. This differed with Ivan Pavlov's classical conditioning, which together with J.B. Watson's extreme environmentalism influenced his own thinking.

Reinforcement is tied to overt behaviour aside from needs theories which were anchored on individual incriminations which have been use in animal training, raising children, and motivating workers. Reinforcement is an operant tradition which focuses on external factors which define mannerisms. Reinforcement asserts stimuli are used in controlling behaviour. Four key strands of reinforcement are: positive reinforcement, negative reinforcement, positive punishment, and negative punishment. Analysis of building blocks the Law of Effect and primary approaches, one could beget expected results through workplace application.

2.1.3 The Herzberg Two-Factor Theory

Frederick Herzberg contrived the two-factor theory of motivation, also identified as motivation hygiene theory (1959). Its goal was geared towards probing the degree to which one was content or not with their production. To assess it, Herzberg tasked workers with descriptive assignments in which they were content with their job or not. Findings enabled Herzberg to assert worker contentedness at the work is hinged on factors like worker honoring, leadership and attainment, conversely discontentedness was inspired by worker supervision, remuneration and work surroundings (Robbins, 2005).

The two-factor tradition divided the variables which affect productivity in categories namely: the Motivators and Hygiene variables. Variables of Hygiene relate to the work surrounding whereas variables of motivation link to natural and character of the work. Hygiene variables comprise; policy of organization and leader methods, supervising quality, condition of work, remuneration, inter-colleague relations with juniors, work stability. Motivating variables comprise; excellence, professional mobility, honoring and acknowledgement of output, leadership duties, work mobility potential. Herzberg two factor theory concluded the reverse of contentedness isn't non-contentedness, in the way people held. Contentedness reverse is not being contented, and the reverse of "Dissatisfaction" isn't "No dissatisfaction." (Robbins 2005). The theory established that hygiene factors lead to "No dissatisfaction" and make the working environment adequate but not necessarily satisfactory. The theory further established that motivating variables have high effect with regard to "Satisfaction" degree although may be "Dissatisfied" though their perception will hold "No satisfaction". Chiefly, "Satisfaction" with "Dissatisfaction" with reference to work normally is an independent phenomenon representable on separate graphical models. Besides, it is noted Herzberg put remuneration as a variable of hygiene. His opinion was it is not credible to experience a sustained rising motivation on account of

remuneration. His assertion is that it may only obtain short-term results, notwithstanding ones getting used to the compensation; pay is not seen as a motivating variable, but like variable of Hygiene, may obtain “No Dissatisfaction” in its highest quest. Herzberg averred satisfying employees to be motivated to scale up their output, the management should raise variables of hygiene (to prevent “Dissatisfaction”) enhance motivating variables like career growth, training opportunities, exit benefits, recognition schemes, wellness schemes among others, so promotion of “satisfaction” is seen in workers.

Herzberg is noted for putting the worker at fore front of the organization through honoring them as he focused on their wellness unlike others who focused on work goal achievement (Kaplan & Tausky, 1977). Motivating variables according to Herzberg, include assessments on the degree of work perceptibility is lightly influenced by achievement, duties, potential upward mobility and being honored. Therefore, the implication of the two-factor theory to the management of an organization is the understanding that successful outreach to the sick, new skill-sets acquisitions and enhancements are key issues influencing work perceptions among medical workers. Therefore, poor work perception may influence high work turnover (Price & Mueller 1981), a worker may not execute assigned duties if not taken care of (Ovretveit, 1990, Linn *et al.*, 1985). Observation of the repercussions of poor work perception on workers to themselves, increasing knowledge of this leads to higher work perceptions and productivity which may help to increase employee output and will contribute space for sustained high performance (Unterweger *et al.*, 2007).

2.2 Empirical Literature Review

Compensation practices deals with the design, implementation and maintenance of compensation system and strategies that are geared towards improvement of organizational, team and individual performance. Hewitt (2009) in the same breath contends that compensation practice has got to do with having a compensation structure in place which employees who perform better are rewarded more than the average performing employees. This approach encourages top-performers to work harder and become more productive in the organization. According to Armstrong (2014), compensation practice is an integral part of human resources management approach to output improvement in organizations.

Several empirical studies focusing on compensation practices and related themes have been done both globally and locally. For instance, in America, Haenisch (2012) carried out studies to establish Factors Affecting Productivity among Government Workers with specific focus on state of Wyoming. The study revealed that state employees appreciated liberty, and welcomed teamwork, although they felt constrained by inadequate control mechanisms, inadequate information channels and low funds and inadequate personnel. This study clearly demonstrates a significant relationship between non-monetary compensation practices and productivity. Another study conducted by Edirisooriyaa (2014) on the impact of Rewards on Employee Performance with Special Reference to Electric Co in Sri Lanka established a positive relationship between extrinsic reward, intrinsic reward and employee performance.

In Pakistan, Shahzad, Muhammad and Arshad (2014) carried out studies on the transactional and transformational leader styles effect on employee job performance and satisfaction to fiscal health of a firm in bank circles in Islamabad, Pakistan. Results confirmed leader styles that transform had a desirable effect worker performance and firm financial performances than the transactional leadership style. Thus, employee output is strongly linked to work satisfaction and commensurate support work environment. Further, these results are in line with the findings of Choudhary *et al.*, (2012). Job satisfaction shows a positive and strong relationship with financial performance.

Ombayo, Egessa and Shiamwama (2014) carried out a study on the Relationship between Career Training and Employee Output in Sugar Firms in Kakamega County, Kenya. The study was anchored on the theory of Career Decision Making developed by Krumboltz 1976. The findings indicated that the more the operatives are exposed on training the higher the level of output. The study recommended that Sugar firms should incorporate quality and frequent training of operatives to increase their output level.

Nyakundi (2012) in his study on the role of employee recognition that can be tapped to improve performance at both individual and organizational levels established that recognizing the employee's accomplishments, through provision of career advancement opportunities translates into improved performance both at the individual and organizational levels. Further, Kemboi, Biwott, Tarus and Keter (2013) in their study on Staff Welfare as an Antecedent to Service Delivery among Civil Servants in Nandi County, Kenya concluded that safety and health, Retirement plans and Flexible Scheduling in the Workplace has significant effect on Service delivery, thus the need to address staff welfare issues.

3.0 CONCLUSIONS AND RECOMMENDATIONS

This paper sought to establish some of the key non-monetary practices of compensation and how they determine employees' output. From the reviewed theoretical and empirical literature, the paper established that non-monetary compensation practices have a direct influence on levels of motivation and ultimately affect output. Among some of the main non-monetary compensation practices mentioned adopted by various organisations include; medical schemes, flexibility in working hours, employee training, and employee recognition and employee development opportunities. The paper recommends that in order for any organization to do well in its quality and quantity of output, and retain competent personnel, it is important that besides monetary compensation, they adopt non-monetary compensation practices to increase their employees' morale and show appreciation to them. Finally, the paper recommends that government, labour unions and regulatory bodies in charge of salaries and remunerations should enforce policies that encourage non-monetary compensation practices by organizations in order to motivate employees for enhanced output.

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