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Enhancing Employee Performance through Monetary Incentives

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ABSTRACT : A performance-linked incentive (PLI) is a form of incentive from one entity to another, such as from the government to industries or from an employer to an employee, which is directly related to the performance or output of the recipient and which may be specified in a government scheme or a contract. PLI may either be open-ended which does not have a fixed ceiling for the quantum of incentive granted or close-ended which has an upper ceiling as stipulated in the scheme or the contract.Open-ended incentives are normally applicable to revenue-generating activities (e.g., sales, production, efficiency, competitiveness, etc), while close-ended incentives are associated with quality improvement or support functions (e.g., operations, human resources, administration, etc.) Also, in calculating PLI, only the performance and not the potential of the recipient is considered. Potential of the recipient is normally subjective and can be contested. PLI is based on metrics which are absolutely objective and clearly perceived as fair by both the PLI provider and the recipient. Employee motivation is an intrinsic and internal drive to put forth the necessary effort and action towards work-related activities. It has been broadly defined as the "psychological forces that determine the direction of a person's behavior in an organisation, a person's level of effort and a person's level of persistence". Also, "Motivation can be thought of as the willingness to expend energy to achieve a goal or a reward. Motivation at work has been defined as 'the sum of the processes that influence the arousal, direction, and maintenance of behaviors relevant to work settings'." Motivated employees are essential to the success of an organization as motivated employees are generally more productive at the work place.

KEYWORDS: employee performance, monetary incentives, motivation, administration, recipient, workplace

I. INTRODUCTION

Performance management (PM) is the process of ensuring that a set of activities and outputs meets an organization's goals in an effective and efficient manner. Performance management can focus on the performance of a whole organization, a department, an employee, or the processes in place to manage particular tasks.[1] Performance management standards are generally organized and disseminated by senior leadership at an organization and by task owners, and may include specifying tasks and outcomes of a job, providing timely feedback and coaching, comparing employees' actual performance and behaviors with desired performance and behaviors, instituting rewards, etc.[2] It is necessary to outline the role of each individual in the organization in terms of functions and responsibilities to ensure that performance management is successful.[3] Performance management principles are used most often in the workplace and can be applied wherever people interact with their environments to produce desired effects—schools, churches, community meetings, sports teams, health settings,[4] governmental agencies, social events, and even political settings.[3]

The way performance management is applied is important in getting the most out of the group. It can have a positive impact on how employees perform on a day-to-day basis. In order to avoid a negative impact, it must be applied in a way that does not encourage internal competition, but rather teamwork, cooperation, and trust.[5] This is done through an implementation process of clarifying the work that has to be done, setting goals and establishing a performance plan, frequently providing coaching, conducting a formal review, and recognizing and rewarding top performance.[4]

Managers use performance management to align company goals with the goals of teams and employees in an effort to increase efficiency, productivity, and profitability.[6] Performance management guidelines stipulate clearly the activities and outcomes by which employees and teams are evaluated during performance appraisal.[7]Many types of organization use performance management systems (PMS) to evaluate their business according to their targets, objectives, and goals to achieve the vision of their organization. For example research institute may use PMS to evaluate their research success in achieving specific development targets in line with the institute vision.[8] Complex multifaceted performance drivers such as societal contribution of research may be evaluated along with many other complex performance drivers like research commercialization, research collaborations, in focus of many development areas such as commercial agriculture sector.[9][10] In such cases research institute may use data-driven real-time PMS to deal with such complex performance management challenges and to be on track of research practices towards development needs of a country in achieving innovations for development of agriculture sector.[11][12]

To apply performance management principles, a commitment analysis is completed first to create a mission statement for each job. The mission statement is a job definition in terms of purpose, customers, product, and scope. This analysis is used to determine the continuous key objectives and performance standards for each job position.[5]

Following the commitment analysis is the work analysis of a particular job in terms of the reporting structure and job description. If a job description is not available, then a systems analysis is completed to create a job description. This analysis is used to determine the continuous critical objectives and performance standards for each job.[6]

Werner Erhard, Michael C. Jensen, and their colleagues developed a new approach to improving performance in organizations. Their model is used to stress how the constraints imposed by one's own worldview can impede cognitive abilities that would otherwise be available. Their work delves into the source of performance, which is not accessible by mere linear cause-and-effect analysis. They assert that the level of performance people achieve correlates with how work situations occur to them and that language (including what is said and unsaid in conversations) plays a major role in how situations occur to the performer. They assert that substantial gains in performance are more likely to be achieved by management understanding how employees perceive the world and then encouraging and implementing changes that make sense to employees' worldview.[13]

Managing employee or system performance and aligning their objectives facilitates the effective delivery of strategic and operational goals. Some proponents argue there is a clear and immediate correlation between using performance management programs or software and improved business and organizational results. In the public sector, the effects of performance management systems have differed from positive to negative, suggesting that differences in the characteristics of performance management systems and the contexts into which they are implemented play an important role to the success or failure of performance management.[14][15]

For employee performance management, using integrated software, rather than a spreadsheet-based recording system, may deliver a return on investment through a range of direct and indirect sales benefits, operational efficiency benefits, and by unlocking the latent potential in every employee workday (i.e., the time they spend not actually doing their job). Benefits may include:

Direct financial gain[7]

- Grow sales
- Reduce costs in the organization
- Stop project overruns
- Aligns the organization directly behind the CEO's goals
- Decreases the time it takes to create strategic or operational changes by communicating the changes through a new set of goals

Motivated workforce

- Optimizes incentive plans to specific goals for over achievement, not just business as usual
- Improves employee engagement because everyone understands how they are directly contributing to the organizations high-level goals
- Create transparency in the achievement of goals
- High confidence in bonus payment process
- Professional development programs are better aligned directly to achieving business level goals

Improved management control[8]

- Flexible, responsive to management needs
- Displays data relationships
- Helps audit / comply with legislative requirement
- Simplifies communication of strategic goals scenario planning
- Provides well documented and communicated process documentation

In general, incentives are anything that persuade a person to alter their behaviour.[1] It is emphasised that incentives matter by the basic law of economists and the laws of behaviour, which state that higher incentives amount to greater levels of effort and therefore, higher levels of performance.[2] Incentives can be broken down into two categories; intrinsic incentives and extrinsic incentives.[3] The motivation of people's behaviour comes from within. In activities, they are often motivated by the task itself or the internal reward rather than the external reward. There are many internal rewards, for example, participating in activities can satisfy people's sense of achievement and bring them positive emotions. An intrinsic incentive is when a person is motivated to act in a certain way for their own personal satisfaction.[4] This means that when a person is intrinsically incentivised, they perform a certain task to please themselves and are not seeking any external reward, nor facing any external pressure to perform the task.[4] On the other hand, an extrinsic incentive is when a person has external pressure persuading them to act in a particular way.[5] The external pressure could include either a reward for completing the task or could be a form of punishment or consequence if the task is not completed.[5] When people have difficulty completing a task or lack interest in participating in an activity, extrinsic incentives can often be effective in helping people improve their motivation.[9]

Intrinsic incentives and extrinsic incentives are both important and drive people's behaviour. However, people's intrinsic motivation tends to decrease when they are offered too many extrinsic rewards, in order to maintain the action, constant incentives have to be provided, which is known as the Overjustification Effect.[10]

In the context of economics, incentives are most studied in the area of personnel economics where economic analysts, such as those tho take part in human resources management practices, focus on how firms make employees more motivated, through pay and career concerns, compensation and performance evaluation, to motivate employees and best achieve the firms desired performance outcomes.[6]

Overall, the standard "law of behaviour" suggests that more incentives will result in higher performance and higher effort,[1] people can reach their performance to the next level by rewarding. As a result, extrinsic incentives are commonly used within the workforce by employers and managers.[1] This is because, employers believe that the more they encourage their employees to act in a certain way, the more the company will benefit in reaching its organisational goals.[1] However, there are some parties who opposed the benefits of using extrinsic incentives and believe they cause more harm than good. This is because these opponents believe that the constant use of extrinsic incentives can lead to crowding out of intrinsic incentives, which are also valuable performance motivators.[2] When people are constantly being incentivised by external pressures, they neglect their intrinsic motives which could consequently ruin their work ethic.[7] This is because, these people can become too comfortable with always gaining some reward for acting in a certain way, people think that they deserve to earn rewards for doing certain things, not for the benefits of the firm but benefits of themselves, leading to them to take no action if no extrinsic incentive is involved.[7] Nonetheless, incentives (both intrinsic and extrinsic) can be beneficial in altering a persons behaviour and can be effectively used and executed within many different areas of life including in the workforce, in education and within one's personal life.[1]

II. DISCUSSION

Monetary incentives are a monetary good given to someone to incentivize their actions.[10] This is a type of extrinsic incentive and is commonly seen in the workplace. They can come in the forms of profit sharing, bonuses, stock options or even paid vacation time. Well-chosen monetary incentive programs can produce positive motivation and influence the productivity and output of individuals and firms. Firms use a variety of methods to implement productive behavior.[11]

A common monetary incentive system is the performance-based pay where incentives are paid based on their productivity or output. Some methods are commission based where the employee, for examples a salesperson receives a payment directly correlated to their output level. Firms also pay extra wages or rewards for employees who work overtime and extra amount of work they done, incentives in this way make the employees feel fair and willing to do the same next time. Other methods are less direct, for example awarding periodic bonuses to top performers, offering a possibility of a promotion to higher-paying position or profit sharing for team projects.[12] Alternatively, firms can also incentives their employees to perform by threatening to demote or terminate them.[12] When employees feel their careers are threatened, they will show higher performance and efficiency in work.

The effect of monetary incentives can depend on the framing of the rewards. For example, in cadaveric organ donation, funeral aids are perceived to be more ethical (particularly in showing gratitude and honoring the deceased donor) and potentially increase donation willingness than direct cash payments of the same monetary value.[13][14]

Incentives are arguably beneficial in increasing productivity, however, they can also have an adverse effect on the firm.[12] This is evident through the ratchet effect. A firm may use its observation of the employees output level when they first get employed as a guide to set performance standard and objectives for the future.[18] Knowing this, an employee may purposely reduce their output level when first employed or hide their ability to produce at a higher output with the intent of exploiting being rewarded in the future when they strategically increase their output level.[18] Best performances of employees can be limited from it. Thus, the ratchet effect can significantly diminish production levels of a firm and planned economies.[19]

Additionally, since the 1970s psychologists begun exploring the role of motivators, whilst economist were simultaneously studying crowding out effects. This came as a result of Richard Titmus' 1970 publication[15] 'The Gift Relationship' which explained how the constant use of extrinsic incentives can result in conflict with other motivators and lead to crowding out effects.[20] In his publication Titmus argued that the use of monetary incentives was disrupting social norms around the idea of voluntary contribution and would ultimately have a crowing out effect. [16] He acknowledged that if the incentives are large enough it is more likely to offset crowding out effects, but noted that making the incentives too large could also have an adverse effect and result in people not meeting expectations.[21] However, crowding out can still take place when incentives are removed over the long run. This is because the removal of incentives can result in employee effort levels being lower than when the incentives were offered thereby hindering motivation and performance. [22]

Neither do incentives not always increase motivation as they can contribute to the self-selection of individuals, as different people are attracted by different incentive schemes depending on their attitudes towards risk, uncertainty, competitiveness.[23] For example, some corporate policies popular during the 1990s aimed to encourage productivity have led to failures as a result of unintended consequences.[24] Another example, providing stock options were intended to boost CEO productivity through offering a remunerative incentive to aligning the CEOs interests with those of the shareholders to improve company performance.[24] However, CEOs were found to either make good decisions which resulted in a reward of a long-term price increase of the stock, or were found to have fabricated the accounting information to give the illusion of economic success and to retain their incentive based pay.[24] Furthermore, it has been found to be extremely costly for the firms to incentivize the CEOs with stock options, nevertheless, firms are forced to pay substantial amounts of money for the provision that the CEO acts in the best interest of the firms and profit maximization.[12]

Incentives can have a bipolar effect on the company. On the one hand, the company's incentives to employees may create a pay gap. For example, low-paid employees may reduce their production or contribution to the company. For example, low-paid employees and high-paid employees may not be able to communicate and cooperate effectively, causing low-paid employees to gradually lose their enthusiasm for work.[25] Firms should provide fair amount of incentives for both low-paid and other employees, incentives for low-paid works can be breaks rather than monetary incentives. Motivating employees with financial rewards may make a difference. That's because if the company is profitable in the first year, it may have plenty of bonuses to hand out to employees. [18] However, if the company makes less money in the second year than it did in the first year, the company may not be able to give employees the same bonuses as in the first year even though they put in the same effort. This also reduces employees' motivation to work. Therefore, incentives may be counterproductive. Firm can provides other types of incentives rather than monetary incentives, such as promotion or vacation breaks for employees of highly performance.[17]

On the other hand, incentives have a positive effect on education. For example, students may underestimate their own learning ability. Incentive not only makes teachers or parents pay more attention to students' abilities, but also encourages students to bring good learning returns. However, it is worth noting that monetary incentives may not be positive. There may be bribery education in monetary incentives, and this monetary incentive is often contrary to morality.[22]

Teamwork is very important to the productivity of the company and will also serve as an incentive for the company. When employees encounter difficult problems, the company effectively incentives employees' performance by establishing teams to communicate and collaborate with each other. In particular, when the abilities of employees form complementary forms, the company's incentive effect achieves a good performance. On the contrary, in teamwork, by contrast, companies that reward individual achievement cause team members to split when employees rely too much on the output of the team, the incentive of teamwork will have a certain negative effect on the company's production.[26]

Ultimately, there is always potential for conflicts to arise, both in the short and in the long run, during the application of incentives in different areas, as incentives that seek to change behaviours can cause crowing out on intrinsic motivators. Growing evidence suggests that economists must broaden their focus when exploring the effects of incentives as the effect they have is largely dependent on how they are designed and specifically how they interact with intrinsic and social motivators in the short run and the long run. [27] An incentive program is a formal scheme used to promote or encourage specific actions or behavior by a specific group of people during a defined period of time. Incentive programs are particularly used in business management to motivate employees and in sales to attract and retain customers. Scientific literature also refers to this concept as pay for performance.[1] Points-based incentive programs are a type of program where participants collect and redeem points for rewards. Points programs may be used to incentivize both employees or consumers.[8] Depending on the program type and the organizational objectives, points can be awarded on a number of criteria including positive employee behavior, the demonstration of organizational values, repeat customer purchases, the sale of new products, increased overall sales, or even the use of proper safety precautions. In addition to point awarding, the levels at which points can be redeemed can be customized by the organization.19 Points programs are a way for organizations to motivate behavior over time while improving the organizations' overall performance. Loyalty programs are a frequently used points-based incentive program in which customers that exhibit a certain behavior are rewarded with points, reinforcing that behavior. These programs are primarily used to drive sales, reduce sales costs, increase profitability, develop new territory, and enhance margins. Sales incentive programs have the most direct relationship to outcomes.[9] A sales incentive plan (SIP) is a business tool used to motivate and compensate a sales professional or sales agent to meet goals or metrics over a specific period of time, usually broken into a plan for a fiscal quarter or fiscal year.[10] An SIP is very similar to a commission plan; however, an SIP can incorporate sales metrics other than goods sold (or value of goods sold), which is traditionally how a commission plan is derived. Sales metrics used in an SIP are typically in the form of sales quotas (sometimes referred to as point of sale or POS shipments), new business opportunities and/or management by objectives (MBOs) independent action of the sales professional and is usually used in conjunction with a base salary.20

SIPs are used to incent sales professionals where total sales are not a precise measure of sales productivity. This is usually due to the complexity or length of the sales process or where a sale is completed not by an individual but by a team of people, each contributing unique skills to the sales process. SIPs are used to encourage and compensate each member of the sales team as they contribute to the team's ability to sell. It is not uncommon for the members of such teams to be located in different physical locations and for the product introduction to happen in one location and the purchase of such a product to occur in another location.21

A website which pays people in gifts or cash for completing provided offers and referring other people and frequently use an [Affiliate marketing|affiliate] model. These sites are typically sponsored by companies in order to advertise their products. The sites are in turn paid for advertising and attracting new clients. By collecting user data that the user submits, companies can target certain areas of clientele and offer products accordingly.[12]

In most cases, incentive sites grant rewards for completing requirements. This usually requires viewing advertisements, signing up for a site, entering a PIN code (through a mobile device), purchasing trial products or full products or completing surveys. This in turn rewards the specified user in cash, points, check, or its equivalent. Alternately, an offer may entail referring website visitors by inviting them to a target site under a referral link (unique to every user). Referrers in turn are either paid for every person they invited or as percentage of resulting revenue.

III. RESULTS

Selecting the appropriate rewards is vital to any program's success. The goal in choosing rewards is to select items that will spark the participant's interest or feelings, and support the program's objectives. Effective rewards will both motivate short-term behavior and provide motivation over time. There are several types of rewards. While incentive program participants often state that they prefer cash to non-cash rewards, research has shown that cash is a poor motivator due to its lack of "trophy value." In a recent study conducted by the Center for Concept Development, three of five respondents agree that a cash payment is perceived to be part of an employee's total compensation package and not as part of an incentive program.[15] Additionally, cash is quickly forgotten as many participants tend to spend it on everyday items or use it to pay bills. Given that most people do not generally talk about cash awards, cash programs do little to generate the interest required to create an effective incentive program.22

Research shows that pay for performance often gives only short term gains, frequently gives no gains at all, and may give reduced performance.[16] Merchandise and other non-cash rewards are more often perceived as separate from compensation. Accordingly, non-cash rewards tend to stand out as rewards for performance, which enhances their long-term effect. Branded merchandise and other non-cash rewards have high trophy value, bringing greater recognition to the recipient at the time of the award and possessing a long-term lasting effect that can result in increased engagement in the organization's goals. Gift cards/certificates are prepaid retail cards or certificates which are redeemed at a later time at checkout. In general, they are available in two types: (1) cards which carry a major credit card brand, commonly referred to as universal gift cards (UGC), and are redeemable at all merchants accepting the credit card brand; and (2) retailer-specific cards, issued by well-known merchants, redeemable only through the issuing retailer. In the 2005 Incentive Federation Study of Motivation and Incentive Applications, gift cards were ranked as the most frequently used type of corporate reward.[17] Gift cards are also more likely to be used for luxury purchases and can build an emotional bond with the organization.[18] Merchandise rewards can range anywhere from small branded key chains to high-end electronics. In a 2005 study conducted by the Center for Concept Development, 73% of respondents agreed that more stimulating, memorable incentive programs can be built around merchandise as opposed to cash rewards.[15] Travel rewards can best be defined as a face-to-face event designed to motivate, either directly or indirectly. In a 2005 study conducted by the Center for Concept Development, 51% of respondents perceived that travel is remembered longer than other incentive rewards.[15] Experiential rewards provide program participants with an experience. This form of reward gives organizations the ability to offer their employees and customers interesting experiences as incentives. Examples might include a seaplane flight and lunch, a two-hour horse ride on the beach, a day of sailing for two, a chance to meet a star athlete, or the use of a party planner for an occasion of the recipient's choice. Experiential rewards allow participants to share their experiences with others and reinforce the reward and the behavior that led to the giving of the reward.[23]

Employer to employee PLI schemes

PLI and Appraisal

Appraisals, normally conducted half-yearly or annually, are used to decide on the salary increments and promotions of the employee. These, being permanent increases, take both the performance and potential of the employee into account.[24]

PLI's comparison with other benefits

PLI vs Salary

Salary is paid for the efforts that one puts in and PLI is paid for the results. Salary is paid in short, definitive cycles (e.g., weekly, monthly, fortnightly etc.) while PLI is paid in a longer cycle of monthly, quarterly or half-yearly, yearly.[25]

PLI vs Bonus

Bonus is paid for the performance of the organization while PLI is paid for the individual's performance. Bonus is normally paid yearly or half-yearly. This is normally paid as a percentage of one's salary, or as a fixed amount, of the employee's individual performance.

PLI vs Retention Bonus

Some organizations give a retention bonus which is payable for the period that an employee stays back in the organization. This is paid for the value added by the employee by virtue of mere presence and not necessary for the efforts or work output. Normally retention bonus is paid yearly or half-yearly which will incentivise the employee to stay back in the organization for the payment

In organisational development, performance improvement is organisational change in which the managers and governing body of an organisation put into place and manage a program which measures the current level of performance of the organisation and then generates ideas for modifying organisational behaviour and infrastructure which are put into place to achieve higher output. At the organisational level, performance improvement usually involves softer forms of measurement such as customer satisfaction surveys which are used to obtain qualitative information about performance from the viewpoint of customers.[26]

The primary goals of organisational improvement are to increase organisational effectiveness and efficiency to improve the ability of the organisation to deliver goods and or services. A third area sometimes targeted for improvement is organisational efficacy, which involves the process of setting organisational goals and objectives. Performance improvement can occur at different levels: an individual performer, a team, an organisational unit, or the organisation itself.

In business, human performance in sales, operations and employee engagement is able to be improved through psychologically rewarding experiences "which can trigger a host of intrinsic human emotions and behaviour as identified by Maslow. Including rewards in a performance improvement solution is a proven strategy to engage employees and align them with the company's goals. Stimulating awards can be cash or non-cash. The addition of non-cash awards to the total rewards package may bring out the performance potential of people because it separates a reward from being used as or perceived as ordinary salary income. Non-cash awards are thought to motivate higher achievement of and drive greater returns on investment. Cash as a reward can also be spent on day-to-day items like food or gas and does not create the increased "psychological reward" of achieving special items, or points to acquire items. By connecting with all levels of the organization a complete rewards package may amplify performance across the organisation and bring personal goals into alignment with organisational goals," according to Maritz, LLC. Reward programs supporting improvement in sales and operations can be effectively paid for from the increase in revenue or profits which flow from the program, and without spending to reward for your current levels.[27]

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There is evidence that monetary rewards are not effective outside the context of very rote work. In some cases, monetary incentive plans may decrease employee morale, as in Microsoft's stack-ranking system, where the total reward amount is fixed and employees are graded on an artificially fitted distribution[2]

IV. CONCLUSIONS

If an employee's performance is unsatisfactory, the employer may set out a performance improvement plan (PIP) to help the employee improve.[4][5] This may be because the employee is failing to meet the goals for their role, or due to other problems such as poor behavior or interpersonal skills.[6] A PIP is usually a written document, and it should clarify expectations for the employee, articulate how the employee is failing to meet them, lay out what improvements are expected, explain whether and how managers will support the employee in improving, and indicate what the consequences will be if the employee fails to improve.[4][5] The expected improvements should be specific and measurable,[4][5] and consequences for failing to meet them might include a transfer, demotion, or termination.[4]

Typically, the employee's manager and someone from human resources meet with the employee to discuss the PIP.[7] According to Donald L. Kirkpatrick, a PIP should be developed by the manager and the employee together, because it requires both of their participation in order to be successful.[8] The American Society for Human Resource Management recommends that "a PIP should be used when there is a commitment to help the employee improve", not just as a way to prepare to terminate the employee,[4] but some companies do use PIPs simply as a way to start a termination.[7]

Performance management is the term used to refer to activities, tools, processes, and programs that companies create or apply to manage the performance of individual employees, teams, departments, and other organizational units within their organizational influence. In contrast, performance appraisal refers to the act of appraising or evaluating performance during a given performance period to determine how well an employee, a vendor or an organizational unit has performed relative to agreed objectives or goals, and this is only one of many important activities within the overall concept of performance management.[24]

At the workplace, performance management is implemented by employees with supervisory roles. Normally, the goal of managing performance is to allow individual employees to find out how well they had performed relative to performance targets or key performance indicators (KPIs) during a specific performance period from their supervisors and managers.

An organization-wide 360-degree feedback process integrated into its culture can be a powerful tool for communicating and instituting change, rapidly touching all members of the organization when new markets, strategies, values and structures are introduced into the system.[19]

Organizations and companies typically manage employee performance over a formal 12-month period (otherwise known as the formal company performance period).

The results of performance management exercises are used in:

- Employee development planning to select the most appropriate and suitable development intervention to improve employees' knowledge, skills and behavior
- Factual basis for compensation and rewards (pay raise & bonuses being the most common)
- Factual basis in consideration with other factors for mobility (Example: transfers and promotions)

Each year companies spend millions on their performance management systems. In order for performance management to be successful, businesses must continue to adapt their system to correct their current deficiencies. Some aspects may resonate more with employees compared to others (e.g., goal setting or performance bonuses).[20] Effective management will set up a performance management system that is distinctive and consistent.[26] The goal is to continue to alter the system to have higher employee engagement and increase their employees' performance at work. In turn, companies hope this results in less turnover and creates a better workplace environment.[27]

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