

## **COURSE: REWARD MANAGEMENT**

### **LECTURE 4: NON-FINANCIAL REWARDS**

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#### **Lecture learning outcomes:**

#### **At the end of the lecture, you will be able to:**

- i. Understand the concept of non-financial rewards
- ii. Discuss the purpose and benefits of non-financial rewards
- iii. Examine various types of non-financial rewards

#### **NON-FINANCIAL REWARDS**

Non-Financial rewards can be treated as specific incentives to the employees other than extra monetary payment. Non-financial rewards can be defined as the compensation provided in a transaction that does not include cash. A non-financial reward consists of several material objects, such as automobiles, jewelry, precious metals. Companies offer non-financial reward in the form of providing several services like free car repairing and family vacations. Moreover, free pension entitlement or private medical care can also be considered as the non-financial rewards.

Non-financial rewards are those that focus on the needs people have to varying degrees for recognition, achievement, responsibility, autonomy, influence and personal growth. They incorporate the notion of relational rewards, which are the intangible rewards concerned with the work environment (quality of working life, the work itself, work–life balance), recognition, performance management, and learning and development. Non-financial rewards can be extrinsic, such as praise or recognition, or intrinsic, arising from the work itself associated with job challenge and interest and feelings that the work is worthwhile.

Non-financial reward is a method of identifying either individual employees or teams for particular praise or acknowledgement. The size, scope and formality of non-financial recognition schemes vary according to the organization. It is important to be aware that the concept of non-financial reward does not mean that the reward provided should not have financial value, It simply means that whatever is given should not be just money. The key thing is that this method of conveying appreciation is likely to be more memorable than cash award which is in the employees salary. Non-financial rewards can offer a gift, an experience or means to purchase material goods of their choice. It provides the employees with something tangible that they can remember.

#### **The significance of non-financial rewards**

Latham and Locke (1979) noted that: ‘Money is obviously the primary incentive’ but they went on to say that ‘money alone is not enough to motivate high performance.’ Money may be an important factor in attracting and retaining people (the sorting effect). It can produce satisfaction, but this may be short-lived. And if the principles of distributive and procedural justice are not followed, it can cause lasting dissatisfaction. It can be said that money will motivate some of the

people all of the time and, perhaps, all of the people some of the time. But it cannot be relied on to motivate all of the people all of the time. To rely on it as the sole motivator is misguided. Money has to be reinforced by nonfinancial rewards, especially those that provide intrinsic motivation. When motivation is achieved by such means it can have a more powerful and longer-lasting effect on people, and financial and non-financial rewards can be mutually reinforcing. Reward systems should therefore be designed and managed in such a way as to provide the best mix of all kinds of motivators according to the needs of the organization and its members.

There are two types of non-financial rewards namely tangible non-financial rewards and intangible non-financial rewards. Intangible non-financial rewards are referred as the relational rewards. Work life balance, quality of work life fall in the intangible non-financial rewards category. On the other hand the tangible non-financial rewards are referred as the non cash rewards. These non cash rewards support several recognition programs. Low valued matters or objects like flowers and chocolates are considered as the tangible non-financial rewards.

### **Types of non-financial rewards**

- Non-financial rewards can be classified as follows:
- The manager saying ‘thank you’
- The manager writing formally to record ‘thanks’
- Public appreciation of the effort in a team meeting or organization newsletter or special dinner
- Declaring the individual ‘employee of the month or year’
- Retail or travel vouchers
- Meals for the individual and partner
- Theater or cinema tickets
- Reserved parking space
- Use of recreational facilities
- individual extrinsic rewards: non-financial recognition, praise, feedback
- individual intrinsic rewards: fulfilling work, opportunity to grow
- collective extrinsic rewards: work–life balance policies, employee well-being services, concierge services, voluntary benefits, learning and development and talent management programmes
- collective intrinsic rewards: work environment enhancement, work system design.

Recognition can become more formal and public commensurate with the perceived value of the action. There is no standard way of rewarding, it varies with size and sector of the employer and organizational objectives.

### **Individual extrinsic rewards**

#### **Non-financial recognition**

Recognition is one of the most powerful methods of rewarding people. They need to know not only how well they have achieved their objectives or carried out their work but also that their achievements are appreciated. Recognition needs are linked to the esteem needs in Maslow’s

(1954) hierarchy of needs. They are defined by Maslow as the need to have a stable, firmly based, high evaluation of oneself (self-esteem) and to have the respect of others (prestige). These needs are classified into two subsidiary sets: first, 'the desire for achievement, for adequacy, for confidence in the face of the world, and for independence and freedom', and second, 'the desire for reputation or status defined as respect or esteem from other people, and manifested by recognition, attention, importance or appreciation'. Belief in the motivational value of recognition is supported by Herzberg's (1957, 1968) research, which identified recognition as an important 'satisfier'.

Recognition is a form of feedback that lets people know that they have done well and therefore provides positive reinforcement. Research by Brand et al (1982) found that a feedback programme in a US government agency that involved public recognition brought about an increase in productivity of 26 to 149 per cent in different sections. A meta-analysis by DeNisi and Kluger (2000) of 131 empirical studies that had tested how well feedback interventions worked indicated a modest but positive effect of feedback on performance overall. Recognition can be provided by positive and immediate feedback from managers and colleagues that acknowledges individual contributions, and by managers who listen to and act upon the suggestions of their team members. Other actions that provide recognition include allocation to a high-profile project and enrichment of the job to provide scope for more interesting and rewarding work. There are other forms of recognition such as public 'applause', status symbols of one kind or another, sabbaticals, treats, trips abroad and long-service awards, all of which can function as rewards. But they must be used with care. One person's recognition implies an element of non-recognition to others and the consequences of having winners and losers need to be carefully managed.

According to Brun and Dugas (2008), there are three important dimensions of employee recognition such as formal or informal, non-monetary or monetary and collective or individual (Brun and Dugas, 2008, pp.316-330). In non monetary recognition, the non financial employee recognition receives limited attention compared to several other reward areas. Reward behaviors are generally linked to the organizational goals. Recognition schemes try to increase the commitment, motivation and engagement of the employees within an organization. This scheme helps an organization to increase performance outcomes. It can be seen that several global organizations implemented this specific recognition schemes in order to increase their business efficiency. Generally larger organizations use this recognition schemes as it is both time and cost effective. These recognitions can come in both non tangible and tangible forms. According to Perkins and White (2010), an effective employee recognition programme should be prevalent, visible, spontaneous, personal and memorable (Perkins and White, 2011, p.72). The organizations implement these recognition schemes in order to achieve several organizational objectives. It motivates the employees to provide effective work performance. It creates a positive organizational work environment. The organization can maintain their ethics and morale through these recognition schemes. Moreover, these recognition schemes encourage the employee loyalty and support several cultural changes. According to Lewis (2006), involvement policies, thank you prizes, communication strategies, imaginative job designs and effective performance appraisal are majorly considered as the non-financial reward (Lewis, 2006, p.107).

**Praise**-Praise is, of course, a form of recognition. It can be given privately during the course of work or in a performance review meeting. Public praise can be even more rewarding. But the praise must be genuine and saved for real achievements. It should not be fulsome.

**Feedback** -Feedback is another form of recognition. If done properly it can increase self-belief and provide the basis for self-directed learning.

**Vouchers**-Vouchers give employees a certain element of choice, A voucher can be a double reward because employee receives the voucher and then also spends it.

**Nomination-based schemes**-Organizations that do not wish to offer something that has a monetary value can offer a memento, trophy or certificate to denote the employees contribution. This may be based on nomination by colleagues that are mostly called staff achievement awards' where employees are allowed to nominate one of their colleagues in a number of award categories.

### **Individual intrinsic rewards**

**Fulfilling work** -Work can be fulfilling and therefore motivating when individuals feel that what they do is worthwhile and adds value. This implies that they should ideally work on a complete process or product, or a significant part of it that can be seen as a whole. Work is also fulfilling when it requires people to use abilities they value to perform it effectively and scope is provided for achievement, responsibility, autonomy and influence.

**Use of abilities** -Fulfilling work enables people to use and develop their abilities. This is particularly the case when people are stretched, but not too hard, to achieve more than they expected they could achieve.

**Achievement** -The need to achieve applies in varying degrees to all people in all jobs, although the level at which it operates will depend on the orientation of the individual and the scope provided by the work to fulfil a need for achievement. People feel rewarded and motivated if they have the scope to achieve as well as being recognized for the achievement.

**Responsibility** -Individuals can be motivated by being given more responsibility for their work. People are in positions of responsibility when they are held to account for what they do. They are in charge of their work and the resources required to do it. Being given more responsibility can satisfy needs for achievement and increase self-esteem. It is also a form of recognition.

**Autonomy** -Autonomy exists when an individual has freedom to make decisions and act independently without reference to higher authority. It enhances self-belief, gives people more opportunity to achieve and provides an opportunity to develop skills

**Influence** -Jobs are more fulfilling if people can influence what they do or exert wider influence on policy and operational decisions.

**Opportunity to grow** -Alderfer (1972) emphasized the importance of providing people with opportunities for personal growth as a means of rewarding and therefore motivating them. He believed that satisfaction of growth needs takes place when individuals have the opportunity to be what they are most fully and to become what they can. Most learning and development

opportunities take place in the course of everyday work, and the organization can encourage this through coaching, mentoring and support in the implementation of personal development plans created as part of the performance management process.

### **Collective extrinsic rewards**

Collective extrinsic rewards are provided by the organization in the shape of policies, procedures, services and programs such as the following:

- Work–life balance policies reward people by recognizing their needs outside work by, for example, adopting family-friendly policies, including the provision of more flexible working arrangements.
- Employee well-being services can be provided for individuals to help them deal with their problems. This may involve counselling or personal casework where the aim is as far as possible to get individuals to help themselves.
- Concierge services provide employees with help by undertaking mundane personal tasks such as getting their car serviced, home repairs or waiting at home for deliveries.
- Voluntary benefit schemes provide opportunities for employees to buy goods or services at discounted prices. The employer negotiates deals with the suppliers.
- Learning and development programs give employees the chance to develop their skills and careers

### **Collective intrinsic rewards**

Collective intrinsic rewards are provided mainly through the work environment. They relate to the quality of working life provided and the organization's core values.

**Quality of working life** -The quality of working life refers to the feelings of satisfaction and well-being arising from the work itself and the way people are treated. On the basis of their longitudinal research in 12 companies Purcell et al (2003) concluded that: What seems to be happening is that successful firms are able to meet peoples' needs both for a good job and to work 'in a great place'. They create good work and a conducive working environment. In this way they become an 'employer of choice'. People will want to work there because their individual needs are met – for a good job with prospects linked to training, appraisal and working with a good boss who listens and gives some autonomy but helps with coaching and guidance. Specifically, the quality of working life depends on having a system of work that enables jobs to be designed that provide for intrinsic motivation, on good working conditions and on the leadership qualities of line managers and team leaders,

**Core values** -The significance of the core values of an organization as a basis for creating a rewarding work environment was identified by the research conducted by John Purcell and his colleagues referred to above. The most successful companies had what the researchers called 'the big idea'. They had a clear vision and a set of integrated values that were embedded, enduring, collective, measured and managed. They were concerned with sustaining performance and

flexibility. Clear connections existed between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment, and operational performance.

## **Benefits of non-financial rewards**

### **Organizational Benefits**

- Acknowledge performance above and beyond the norm
- Enhance customer service
- Recognizes achievements
- Support line managers

### **Other benefits**

- Encouraging strategic behaviors and desired actions. The thinking is that by recognizing outstanding achievement and certain behaviours, other employees will aim to imitate such ways of performing.
- Cost efficiency-these rewards do not need to be expensive.
- Immediate of impact-they have immediacy of their application. The traditional performance appraisal and reward is done on annual basis and takes procedures while non-financial rewards have specific action that merit a reward.
- Employer branding-it enhances employer branding and employer marketing. The non-financial recognition. Non-financial recognition links with the concept of total reward because organizations use both financial and non-financial rewards .
- Retention-it helps to retain key talents, building affective relationship between employer and employee binds the two more closely together. Non-financial recognition scheme can help reinforce affective relationships.
- High street credibility-Non-financial recognition schemes can offer a more in-depth and longer lasting impact on motivation than more transient financial rewards.

## **Problems and potentials pitfalls of non -financial rewards**

**Value of the scheme**-The way the non-financial recognition scheme is set up has a significant effect on its future success. This means that all employees in whatever their role would have the opportunity to be nominated for an award. This reward should be fair because it appeals to the emotional, affective side of people.

**Credible assessment process**-Another aspect of fairness is procedural. It is important to ensure that whichever method of recognition is used, the process by which receivers of vouchers, certificates or awards are chosen should be credible, transparent and robust.

**Cultural fit**-It is better for employees to use non-financial recognition approaches to align with the culture of the organization than to challenge Incentive schemes can counter cultural fit if not well administered.

**Tax and small print**-This reward can be damaged by not thinking through the implications .

**Fraudulent nominations**-Some employees may conspire to fraudulently win awards. It is important to have a due process for nominations.

**Maintaining momentum**-There is need for organizations to review the non-financial recognition schemes regularly and update them where appropriate to ensure that they are still effective.

**Economic situation**-External economic environment can impact on the effectiveness of non-financial rewards especially when organizations are effecting by the economic changes

### **Key Notes**

- Develop the use of non-financial rewards as part of a total rewards policy.
- Introduce employment practices designed to ensure the fair and ethical treatment of employees.
- Involve employees as stakeholders in drawing up a set of core values associated with the employment relationship and in planning and implementing the steps required to ensure that everyone concerned 'lives the values'.
- Review the features of the work environment and introduce changes that will improve the quality of working life and deal with any issues that may affect it.
- Examine ways in which the design of the work system and jobs can be improved to make them more rewarding. Ensure that all those involved in work or job design (which means line managers) know what they can do and why and how they should do it.
- Develop and implement specific policies and practices in such areas as recognition, work-life balance, well-being programmes, concierge services, voluntary benefits, performance management, learning and development and talent management.

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