

EFFICACY OF FINANCIAL INCENTIVES – An Assessment of Medium Scale Entrepreneurial Firms.

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ABSTRACT

The paper examined the efficacy of financial incentives in motivating employees of ICT medium scale enterprises. Seven financial incentives (profit sharing, bonus, premium pay, stock options, cash bonus, and commission and retirement savings incentives) were examined in the paper. Convenience sampling techniques was adopted with a sample size of 167. Descriptive tools involving percentages, frequency distributions and cumulative frequency was used to analyze the data. The result confirmed that cash bonus, premium pay and profit sharing constitute the effective financial incentive entrepreneurs used in motivating their employees. Senior staffs of the establishment were found to be the major beneficiary of retirement savings incentives.

Keywords: *Financial Incentives, Convenience, Entrepreneur, Efficacy.*

1 INTRODUCTION

Profits are firms' lifeblood and employees' incentives are small price to pay for improving these profit. A firm relies on its workforce to keep it competitive and fulfill the task needed to stay in business. In other words a harmonious relationship must exist between the firm and its workforce to attain a comfortable profit growth. A happy workforce with well package incentives will perhaps be the answer to boosting employee's morale and subsequently grow profit. The use of Monetary and non monetary reward in boosting the performance of employee in most small and medium term enterprises has not come without its challenges. Notable among these challenges are lack of adequate resources, nonchalant attitude of employers and non responsiveness of employees to existing incentive package offered by employers. The question therefore is whether financial incentives actually stimulate medium term employees to work? This is premised on the fact that a firm is favoured to grow profit when it identify and implement the right incentive for its workers. This paper examines the efficacy of financial incentives packages deployed by selected medium term entrepreneurs in motivating their employees.

2 LITERATURE REVIEW

Profit making is a universal goal every business owner and organization seeks to achieve around the globe. One Key to achieving this major desire is a thorough understanding of what drives the employee of an Organization (Mueller, 2011). In a highly dynamic and competitive market of this century, financial Incentives strategies, such as profit sharing, cash bonus, commission and retirement income scheme are among incentives deployed by employers of labours to retain and maintain their best hand (Nelson, 2003). Despite these laudable schemes the much anticipated result has always been farfetched. The major challenge of most entrepreneurial employers is identifying and implementing the best or a mix of strategies that aligned to their peculiar organization while spotting the majority needs of their employees. This is based on the assumption that a well motivated staff is an asset that transforms the fortune of an organization in the shortest possible period. Confirming this view, Heneman (1992) observed that motivated employees influences organization in the area of work atmosphere, work attitude and customer relations. Barbara et.al (2003) concluded that motivation stimulates understanding between the employer and the employee. They observed that motivated employees are loyal employees. In a related development, Diener, et.al (2002) opined that the most important factor affecting the overall

performance of any organization is productivity. Supporting this view, Stolovich et.al (2004) concluded that productive workforce is motivated workforce. This implies that any organizations striving for perfection must continuously strategize towards motivating its work force. Michele and Rob (2008) emphasized the need for a well structured reward system in an organization. He noted that they act as catalyst for improved performance and better productivity. Mark (2011) however stressed that reward system must be effectively communicated to employees to avoid controversy and bias. In his own view Hartman (2011) advised that reward must be distinctly and directly related to performance. He added that, its compatibility with Job measurement will ignite the much needed motivational drive in the employees.

2.1 Understanding the Employee

The management of people at work is an integral part of the management process. To understand the critical importance of people in the organization is to recognize that the human element and the organization are synonymous (Green, 2000) Understanding what motivate employees and how they were motivated was the focus of many early scholars (Maslow, 1943., Herzberg, Mausner, & Snyderman, 1959). In his historic study, Maslow (1943) highlighted five levels of needs (physiological, safety, social, esteem, and self- actualization) and stressed the relationship that existed among them. He concluded that lower level needs had to be satisfied before the next higher level need. In a related development, Herzberg et.al (1959) categorized motivation into two factors -motivators and hygienes. He argued that motivator or intrinsic factors, such as achievement and recognition, produce job satisfaction while hygiene or extrinsic factors, such as pay and job security, produce job dissatisfaction. This suggested that what motivates individual or a group of employees differs thus a thorough study must be made to understand what motivate employees for proper identification and implementation to boost organization performance. Supporting this view, Crystal (2010) observed that a well-managed organization usually sees an average worker as the root source of quality and productivity gains. He noted that such organizations do not look to capital investment, but to employees, as the fundamental source of improvement. To achieve this, employers must strive to build a spirit of cooperation, sense of commitment and satisfaction within the sphere of its influence.

3 METHODOLOGY

The study sample was selected from three medium scale Information Communication Technology firms in Southwestern Nigeria. The firms were selected based on their perceived market share and significant presence across the Southwestern part of Nigeria. Both Senior and junior staff of the firms constituted to the study population. Convenience sampling techniques was adopted for the study; this was due to the difficulty involved in accessing respondent in the study area. Data for the study were collected with the aid of questionnaire structured in line with the research focus. Questionnaires were administered across the administrative and functional department of the companies. Descriptive analysis was used to examine the relative efficacy, of financial Incentives on the employees of ICT medium scale entrepreneurial firms.

3.1 Elucidation of Study Variables

The financial incentives identified for the study, are profit sharing, bonus, premium pay, stock options, cash bonus, commission and retirement savings incentives. The study also explored the various status of the respondent in terms junior and senior staffs. This was geared to towards determining the existence of any significance difference in the performances of both senior and junior staffs vis a vis the incentives put in place. For the purpose of the study, profit sharing was viewed as a contribution of small percentage of pre-tax profitability to a pool which was divided among eligible employees. The division is typically prorated according to the basics of each participant (Businesstown, 2003). It is usually done on an annual basis. Respondents were asked to confirm the existence of such incentives package in their organization and subsequently rate the impact on a rating scale.

Bonus incentives was viewed as an annual payout determined by a subjective evaluation of each employees performance by the employer, the respondent were asked to confirmed the existence of such incentives in their establishment. They were equally required to tick on a rated scale, to obtain result on how well they enjoyed the incentives and if such package encourages to their work performance.

Premium pay was viewed as a voluntary wage increase over time worked on holidays or hours over weekend. The premium pay, are based on workers regular hourly wage and add a percentage such as double time or time and a half. Respondent were required to confirm if they have and enjoy such incentive,. They were equally asked to confirm the level of satisfaction and motivation or Such incentives offers them through a rated scale. A stock option was viewed as a way of offering employees a block of Company Stock. Employees tend to have a sense of belonging in the organization and it equally encourages them to sell the stock when the Company price rises.

Commission –This serves as both a reward and motivation for employees who earn them, Commission was referred to as a percentage of the business a sales representative brings in, or a flat rate based on performance. Commission is seen as a direct link between performance and pay. It sometimes promotes healthy, competition within the workforce. Questions were raised to confirm the existence of such incentives. The question particularly received response from employees in the sales unit and department. Cash bonus was observed as direct cash incentive for employees. It is a potent form of financial incentives because It serves as both recognition and a way of helping employees meet their day to day needs.

Retirement Savings Incentives allows firms to develop finance pension for its workforce while simultaneously limiting its cost by splitting evenly with the worker rather than paying entirely out of firm's purse. The availability of the incentive package was raised, responses on the level of motivation and satisfaction derived was equally explored.

4 RESULT AND DISCUSSION

The result from table 1.1 revealed that 74 % medium scale entrepreneurial employees enjoy the profit sharing incentives package put in place by their employers to motivate them, while 11% of the employees are not in any way encouraged by such package.18% employees were neutral in their perception of being motivated by such incentives packages. The general outcome of the result gives a clear indication that majority employees of Nigeria medium scale entrepreneurial firms are adequately motivated by profit sharing incentives packages. The respondents view in on the bonus incentives offered them by their employers was captured in table 1.2. From table, it was noted that most of the respondent (63%) were not motivated by bonus incentive package.22% of the employees were however neutral while 25% confirmed that were motivated. This may be due to the fact most employees perceived their employers as being biased in their subjective evaluation of individual employees as such the employees of medium scale entrepreneurial firms do not have confidence in the bonus incentive scheme put in place by their employers.

Premium pay is another incentives considered by the study, it was observed in table 1.3 that employees constituting 60% agreed that premium pay incentives motivate them and they are quite satisfied with the incentive 38 respondent(23%) remain neutral toward the incentive package and its effectiveness. 17% (28) respondent disagreed with the premium pay incentives ability to motivate them.

Stock option is another notable incentive considered in the study, the response of the respondent was observed in table 1.4. From the table It was confirmed that most medium scale entrepreneurial employers do not apply this package as incentive to stimulate and motivate their employees.

The incentives cash bonus was also observed to have gained wide applause from the employees. This is evidenced from the response noted in table 1.5 where 85% of the employee concurred that cash bonus had very strong impact on their productivity, 7 % agreed that they were fairly motivated by cash bonus.8% were however not motivated by cash incentives. The observation s from the trend of response suggested that cash bonus is very strong motivator and incentives package that influences the employees positively.

The incentive package of retirement savings was not commonly used by medium scale entrepreneurial establishments. This was confirmed from the outcome of the survey conducted. 89% of the study population attested to the fact that there was no retirement plan incentive package for them, while the remaining 19% confirmed the availability of such incentive. The few that attested to the availability of the package were perceived senior or management staff of the establishment.

5 CONCLUSION

Following the outcome of the survey, the study concluded that a number of financial incentive (Profit Sharing, Premium Pay and Cash Bonus) were actively deployed to motivate employees of medium scale entrepreneurial ICT firms. Incentives such as retirement savings and stock options seem not to be in practice and where available it is meant for certain employees, particularly senior or management staff. The availability of Bonus Incentives package was confirmed but it was not encouraging as such most employees were dissatisfied by such a package.

6 RECOMMENDATION

Retirement saving incentives should be encouraged and maintained in entrepreneurial firms. This will help motivate and keep young promising employees when they perceived long term job security and peace of mind that could build a retirement income.

Employers need to orientate their employees on how incentives work, how outstanding staffs are selected for bonus and how they will benefit from such bonus. This display of transparency will help to disabuse the mind of perceived cheated and aggrieved employees and further ginger their efforts towards higher productivity.

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Appendix 1

Table 1.1 Perception of Profit Sharing of Pre Tax Profitability Pool Incentives

Profit Sharing	Frequency	Percentages	Cumulative Frequency
Encouraging	123	74	74
Not encouraging	18	11	85
Neutral	26	16	167
Total	167	100	

Source: Field Survey 2011

Table 1.2 Perception of Respondent View on the Effectiveness of Bonus Incentives

Response	Frequency	Percentages	Cumulative Frequency
Not motivated	106	63	106
Neutral	36	22	142
Motivated	25	15	167
Total	167	100	

Source: Field survey 2011

Table 1.3 Respondents Response to Premium Pay Incentive Package

Response	Frequency	Percentage	Cumulative Frequency
Agree	101	60	101
Neutral	38	23	139
Disagree	28	17	167
Total	167	100	

Source: Field survey 2011

Table 1.4 Availability of Stock Options Incentive

Response	Frequency	percentage	Cumulative Frequency
Yes	47	28	47
No	120	72	167
Total	167	100	

Source: Field survey 2011

Table 1.5 Cash Bonus Motivational Incentives Impact

Response	Frequency	percentage	Cumulative Frequency
Very Effective	142	85	142
Less Effective	12	7	154
Not effective	13	8	167
Total	167	100	

Source: Field survey 2011

Table 1.6 Retirement Savings Incentives

Response	Frequency	percentage	Cumulative Frequency
Not Available	148	89	148
Available	19	11	167
Total	167	100	

Source: Field survey 2011