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Workers Productivity and Incentive – Two sides of the same coin

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ABSTRACT

This paper aims to establish the nexus: productivity and incentive and correlate same with the firms' productivity in Nigeria. It has been discovered by several researchers that employee motivation and incentives influence employees' performance, attitude to work and productivity. The impact of incentive on workers' productivity has been investigated across different fields. A sample size of 132 participants were drawn from a population of 200 employees of Abuja Enterprise Agency. A multiple regression analysis was employed to validate the survey findings. The study's findings showed that both pay and recognition were statistically significant where the coefficient of determination predicted 57.6 percent of the variation in employee productivity; where recognition showed to be the prevailing factor in explaining the model.

Keywords: *Incentives, Pay, Productivity, Recognition, Workers*

1. Introduction

Employee productivity metric system is a central concept in any organization. It plays a crucial part since organizational performance is contingent on their employees' productivity. There exist numerous reasons that can stimulate worker productivity. Several factors are considered as the major determinants of employee performance; one of which is incentives. Incentives are used to spur workers' productivity to accomplish the goals of the firm.

When an organization wants to buoy up productivity among its workers, one possibility obtainable is an employee incentive programme. Worker incentives describe a system of gratifying success and effort in the place of work by permitting personnel to receive prizes or recognition.

In economics speak, an incentive is something that motivates an individual to perform an action. Incentive as a concept is key to the study of all economic activities. In the context of firm, incentives as one of the advanced management practices; its role on worker productivity cannot be exaggerated. An incentive may perhaps influence diverse individuals in diverse ways as people typically pursue their self-interest.

Incentive management is one of the action plans employed by human Resource Managers for attracting and holding seemly workers as well as enabling them to enhance their productivity through

motivation and to conform with employment rule and guideline. As a result of these worries, human resource managers seek to design reward structures that enable the organizations strategic goals and the goals of individual employees. The aim of reward systems is to make available a systematic way to convey positive outcomes. Fundamental purpose is to provide positive consequences for contributions to desired performance [1]. [2] stated that the only way workers will achieve the employers dream is to share in their dream. Reward systems are the mechanisms that make this happen.

Numerous constituents and dimensions of reward systems have been defined in the scholarly works. A case in point is [3] who distinguished two main constituents of reward system to include: compensation and benefits. Compensation is described as base pay and or variable pay, where base pay is tied to the value of the job to the organization in relation to the market value and the expertise required to performing the job. While variable pay is based on the performance of the person in that role which include achieving set targets. Examples of variable pay are bonuses.

Benefits on the other hand are defined as kinds of value other than payment that are offered to workers for their input to the growth of the establishment. Benefits may come in two categories: tangible and intangible benefits. Tangible benefits include contribution to retirement plans, life insurance, vacation pay, holiday pay, employee stock ownership plans, profit sharing and bonuses, etc. Intangible benefits on the other hand include, appreciation from a boss, likelihood for promotion, office space [3].

Incentives generally are varied payments made to employees based on their outputs or attained results [4]. But different authors and researchers have viewed the term incentive from a wider perspective. While [5] viewed it as a stimulant that drives workers to put in their best; [6] also saw incentive as compensation other than just wages or salaries. In his view, incentives fluctuate based on workers' attainment of some set standards.

Productivity on the other hand is the measure of workers' efficiency. Productivity is often measured in terms of the output in a specific period. Therefore, workers' productivity is the quantity of goods and services produced by a worker in a given time. That is the measure of how a worker converts inputs into useful outputs.

The paper intends to examine the two proxies of incentives such as: pay and recognition as independent variables on the productivity as dependent variables.

The following research questions are expected to be answered at the end of the research:

- How does pay lead to employee productivity?
- To what extent does employee recognition lead to employee productivity?

2. Conceptual Framework

This research is based on the workers' productivity and incentive. Incentives in this term are varied payments and other conditions made to employees based on their outputs or attained results; while productivity is

measured in terms of the output in a specific period. The research looks at each proxy of the two types of incentives (financial and non-financial) against the productivity. Figure 2.1 below shows the relationship between the independent variables (pay and recognition) and the dependent variable (productivity).

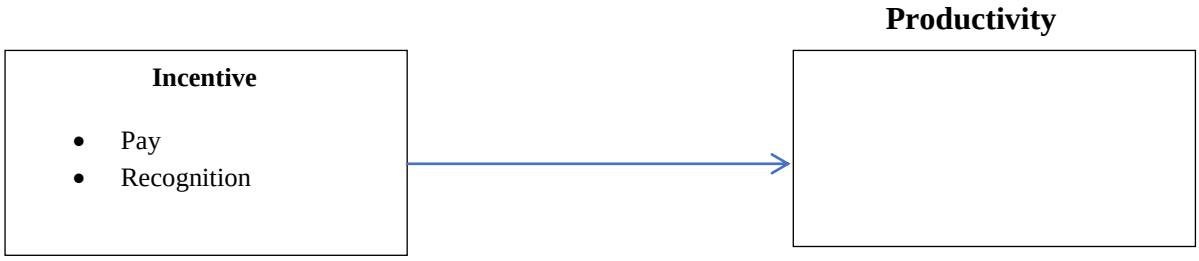

Figure 2.1: Conceptual Framework

2.1 Concept of Incentive

Incentives according to [4] is defined as the measure that spurs human effort; thus driving employees to put their best. Incentives has also been defined as compensation other than salaries and wages that varies according to employees' performance and attainment of some standards. Therefore, it is a payment to employees varied and based on the amount of output attained.

Incentive (financial) was found to have a positive influence on workers' productivity in the Brazilian tax sector. This was discovered when the authority gave financial incentive to workers who detected tax evaders, this led to increase in tax and revenue according to [7].

Incentives as motivators have the ability to create an effective motivation in employees to perform and exert considerable efforts and most beyond the expected according to [8].

How the outputs are measured and the nature of tasks are a few of the important considerations while designing and evaluating incentives according to [9]; [10].

2.1.1 Types of Incentive

Incentive could be financial or non-financial, these are the two major types of incentives. While financial incentives are the most common type of incentive as it involves giving employees financial benefits as a result of meeting or surpassing a set standard. This can be in the form of bonuses, commission and wage/salary increment. While non-financial incentives are incentives without a financial gain. Incentives such as praise and recognition for achievements, award of plaques, and employee of the month award etc. these incentives though may not have immediate financial gains spur employers' into achieving more [11]; [12]. Both financial and non-financial incentives are very important to employees. However, some workers have the tendency to prefer financial incentives, example high pay whereas other employees within the same organization prefer non-financial incentive, namely, recognition and appreciation.

Incentives have further been classified into individual and group (team) incentives. With individual incentives, each employee is rewarded based on individual performance. This has been found to be more effective as it spurs the individual and others to achieve more in order to benefit from such incentives. While group based incentive is given to a number of employees who are part of a team or group. This type of incentive is based on combined effort and promotes team spirit [13].

2.1.1.1 Pay

Financial incentives are external to the job itself. They include financial or tangible rewards such components as pay, fringe benefits, job security, promotions, private office space, and the social climate [14]; [15]. Other cases in point comprise of competitive salaries, pay raises, merit bonuses, and such indirect forms of payment as compensatory time off [16].

Extrinsic Reward or financial incentive as a bigger picture for pay refers to the reward attained that are external to the job itself and it usually include financial and tangible rewards components such as pay, fringe benefits, job security, promotions, private office space, etc.

Pay incentives are compensation awarded for results rather than for time worked. Incentive pay, or pay-for-performance, is the prospect of financial compensation which is assumed to be an incentive for an employee to remain motivated, work hard and strive for the best possible results. Paying workers a wage premium (a wage that is above the wage) paid by other firms for similar labour is one of the oldest strategies embraced by business organisations for enhancing employees' productivity.

High pay is what every employee crave for. With high pay, an employee would feel that sense of belonging and acceptance within the organization to the extent of being loyal and committed to the organization. On the other hand, with high pay, the employer will expect much from the worker.

2.1.1.2 Recognition

Intrinsic Reward as a bigger picture of recognition refers to the reward one derives from the content of the work itself and includes factors such as interesting and challenging work task, self-direction and responsibility, variety, creativity, opportunities to use one's skills and abilities, sufficient feedback regarding effectiveness of one's effort, personal satisfaction with job, recognition and appreciation, career development opportunities, etc.

Employees want good pay and benefits, as well as want to be valued and appreciated for their work, by treating them fairly, whenever they do work that is remarkable. Recognition and rewards play a key role in work unit and agency programmes. This helps to attract and retain their workers. So, it is exceedingly vital for managers, to communicate the agency goals to employees, are included in the development of recognition programmes.

Recognition and Appreciation is a vital component of intrinsic reward system. Recognition refers to the process of acknowledging an individual before his or her peers for a job task well performed beyond expectations, while appreciation is pertained to the showing of gratitude to the employee for his or her action [17]. Such rewards (recognition and appreciation) aid workers to measure their performance and discern whether they are doing well or poorly. Prior study has shown the positive impact of recognition and appreciation on employee engagement and performance. A case in point is a study undertaken by [18] which found in their study that employee recognition is a strategic enabler to employee engagement and performance which ultimately results in organization growth. In a study carried out by [19] on the "impact of reward and recognition programmes on employee motivation and satisfaction". The result showed support for a positive relationship between reward and employee satisfaction.

Furthermore, significant relationship has been stated between recognition/appreciation on employee satisfaction, work morale, and productivity; with the study as well revealing that employees satisfied with their company's employee recognition and appreciation programmes are significantly more satisfied with their jobs, feel more valued at work and are more likely to stay with the organisation [20].

In the recent past, [17] reported a positive influence of recognition and appreciation on employee performance. They argued that the more the appreciation given to employees, the higher the employees' morale to work which unavoidably leads to more productivity. In addition, it has been stated that workers who get recognised have a tendency to have higher self-esteem, more confidence, more willingness and eagerness to take on new challenges and becoming innovative [21].

2.2 Concept of Productivity

Productivity is the measure of inputs to outputs; that is the measure of how inputs relates (ratio) to outputs. Conversely, output deals with the rate of production of goods and services. Productivity measures efficiency, as a more efficient labour force means more profits to an organization. The only way for a firm to boost her bottom line is by improving productivity, which is doing more with fewer resources. Organizational productivity is the measure of how well an organization functions and also an indication of efficiency and competition.

Productivity at the organizational level deals with the efficient use of resources to meet organizational set goals. The baseline for economic productivity of an organization is the strength and quality of human capital. While human capital deals with the skills, abilities, competencies and qualities of the employees. Which comprises of their knowledge and expertise applied to produce goods and services and to the organizations' operations [22]; [23]; [24].

2.3 Theoretical Framework

[11], posited that there exist expectancy theory of motivation which suggests that effort invested in an endeavour is highly positively correlated with the value of reward offered. This implies that, the behaviour of an

employee is influenced by expectation of a desired result. By this theory, productivity is dependent on the availability of resources input and adequacy of incentive provided.

[25] and [26]; there are two theories guiding incentives and motivations – Extrinsic and Intrinsic motivations. According to them, extrinsic incentive is a type of incentive that deal with additional compensation in terms of gift and rewards such as salary, commission or bonuses. Furthermore, intrinsic deals with motivation or greater productivity without inducement. This is a type of self-satisfying incentive where the worker is moved to an area where he/she finds satisfaction and fills fulfilled [27].

3. Research Methodology

The present study is mainly survey in nature and data has been collected through questionnaire administration. Questionnaire was based on Likert five point scale. Data were collected from all the participants from the Abuja Enterprise Agency. Simple random sampling technique was used in collecting data. The target population was 200 members of staff of the organization.

A total of 132 participants were drawn from the population using Raosoft Sample size calculator [28]. 132 questionnaires which represents the recommended sample size were distributed among the employees of the organization.

4. Data Analysis

4.1. Reliability of the Data

Reliability refers to the ability of the data to produce same result consistently [29]. According to [30] reliability is the repeatability of results, if the studies are done second time it produces the same results. Reliability of the data was calculated by using Cronbach's alpha. It is a measurement of internal consistency among the items. The value of Cronbach's alpha is shown in the table 4.1.

Table 4.1: Reliability Statistics

Cronbach's Alpha	N of Items
.786	3

The above table 4.1 shows the overall reliability of the items. The overall score of Cronbach alpha is .786 which is more than the acceptable range i.e. 0.7 [31]; [32]. Therefore it is strong hint that data are reliable for further analysis.

4.2. Results and Interpretations

Table 4.2: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.759[a]	.576	.569	2.330	2.242

a. Predictors: (Constant), Recognition, Pay

b. Dependent Variable: Emp_Productivity

The above table 4.2 highlights the model summary of Regression analysis between pay and recognition and employee productivity. It shows the value of correlation coefficient that is R and coefficient of determination that is R^2. The value of R represents the simple Pearson's correlation. The value of coefficient of determination (R^2) indicates how much of the variation in the dependent variable (employee productivity) can be explained by the independent variables (pay and recognition).

Table 4.2 shows that the value of R is .759 which indicates that there is moderate degree of relationship between pay and recognition and employee productivity. While the value of R^2 is .576 which means 57.6% variation in employee productivity is explained by pay and recognition. Accordingly it can be said that 42.4% variation in dependent variable (employee productivity) cannot be explained by independent variable (pay and recognition). Consequently it is clear that there are some other factors which have an influence on the productivity level of employees Abuja Enterprise Agency.

Table 4.3: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	950.872	2	475.436	87.570	.000[b]
	Residual	700.371	129	5.429		
	Total	1651.242	131			

a. Dependent Variable: Emp_Productivity

b. Predictors: (Constant), Recognition, Pay

From Table 4.3 (ANOVA), the model of pay and recognition and significantly predicts employee productivity, $F(2, 129) = 87.570$, $p < .001$.

This indicates that the combination of the predictor variables (pay and recognition) significantly contributing to the prediction.

Table 4.4: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.451	1.283		5.805	.000
	Pay	.214	.060	.230	3.603	.000
	Recognition	.493	.050	.629	9.841	.000

a. Dependent Variable: Emp_Productivity

Table 4.4 (coefficient table) provides details of models parameters (Beta values) and significance of these values. The unstandardized Beta coefficient gives measures of the contribution of each variable to the model. Firstly, the Beta weights of the standardized coefficients suggest that recognition contributes most to predicting employee productivity and that pay also contribute to this prediction.

Secondly, it is evident from Table 4.4 that the value of unstandardized Beta for pay is .214 while that of recognition is .493 which represent the gradient of regression line. So if the value of predictor variables (pay and recognition) are increased by one unit, there is .214 and .493 unit increased respectively in the dependent variable (employee productivity). The value of unstandardized Beta also indicates that there is small and large effect [33] and positive impact of pay and recognition respectively on employee productivity. This effect is statistically significant because sig. value (p) are .000 which is less than .05 (95% confidence interval). Therefore, null hypothesis is rejected and alternative hypothesis is accepted. It may conclude that there was a significant effect of pay and recognition on employee productivity at Abuja Enterprise Agency.

Regression Equation of this Model is

Y (Dependent Variable) = a (intercept) + B1X1 + B2X2 (Independent Variables) +e

If the values from table 4.4 are put in the equation it will be

Employee productivity = 7.451 + .214 (Pay) + .493 (Recognition)

The regression equation shows the linear relationship between employee productivity and pay and recognition. The intercept value explains the change in dependent variable (employee productivity) when independent variables (pay and recognition) are zero. The value of â shows the change in dependent variable (employee productivity) in respect to independent variable (pay and recognition).

5. Conclusion

5.1. Discussions

By testing the impact of pay and recognition on employee productivity, it was found that there was small and large degree of relationship between pay and recognition respectively and employee productivity. It was also reported from coefficient table that pay and recognition have significant and positive effect on employee productivity in Abuja Enterprise Agency.

The finding of the extant study is consistent with previous research finding of [34] study which found that pay (extrinsic) and recognition (intrinsic) had significant and positive impact on productivity level of employees.

5.1 Conclusion

Given the result of the hypotheses the researcher concludes that:

- There is significant relationship between pay and workers' productivity in Nigeria.

- There is significant relationship between recognition and workers' productivity in Nigeria.

This study concludes that a good incentive system ought to integrate both financial and non-financial incentives that are competitive based on the prevailing market rates; such an incentive offers a sense of worker motivation thereby enhancing their level of productivity as well as commitment to their work which is vital for the organization to experience growth as well as gain a competitive edge against its competitors. Based on the findings, the study concludes that organizational incentive system has positive and significant effect on worker productivity.

5.2. Recommendation

On the basis of the summary and conclusion from the study, the following recommendation is offered:

As both pay and recognition incentives have been found to have a positive and significant effect on employee productivity. Nonetheless as no incentive system is perfect, since motivation is personal and what motivates one worker may well be different from what motivates another worker. Consequently, the organization should get to know their employees well so that they can employ the right motivational strategy.

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