

## Incentives as a tool towards organizational success of entrepreneur business: a case study of small scale pharmaceutical manufacturing unit



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**Abstract-** An incentive schemes can be a tool towards achieving organizational success of a small entrepreneur business. This study was conducted in a small scale pharmaceutical enterprise established in year 2000, located in Taloja industrial area, Navi Mumbai, India. It was found that monetary and non-monetary incentives schemes had a great impact in achieving organizational success. The present incentive schemes were studied on various parameters and were found satisfactory. The findings of study reveals the positive reflection of incentives on tangible determinants of organizational success like employee absenteeism, accident rates and percentage wastage. This study also evaluates and identifies relationship between attitude towards monetary and non-monetary incentives with other non-tangible determinants of organizational success, employee motivation and job satisfaction.

**Key Words:** Small scale enterprise, Monetary and non-monetary Incentives, Organizational success, Motivation, Job satisfaction, Accident rates, production wastage, absenteeism.

### Introduction

Incentives are gaining very high importance in today's fast growing organizations. Salaries may retain the good employee in the organizations but incentives encourage employees to outperform. Gupta (1975) [1] in his study of labour incentive in Indian Iron and Steel Industry, found that monetary incentives are best motivators which lead to better motivation and a higher labour productivity. Nair and Rao (1991) [2] in their study revealed that group incentives can best develop the feeling of team-work and co-ordination. Matthew (1983) [3] stated, direct monetary benefits coupled with greater responsibility and autonomy in decision making were good motivators than other perks. However, the non-monetary incentives are perhaps more important in the case of executives, particularly those in higher position. Sharma (1991) [4] referring to the report of the National Commission of Labour, "under Indian conditions incentives were concerned with effective utilization of manpower which is quickest, cheapest and surest means of increasing productivity and stimulate human efforts to provide positive motivation to greater output." Andrew Ballentine Nora McKenzie Allen Wysocki, Karl Kepner (2003) [5] In this paper the authors said that depending on the age of the employee they have different needs. Monetary and non-monetary incentives can influence employees in different career stages. Kepner (2003) [5] Monetary incentives are the reward for excellent job performance in the form of money, traditionally these incentives have helped to maintain positive motivational environment. The Non-Monetary Incentives on other hand is the reward in the form of opportunities like sabbaticals, training, flexible working hours, etc. Arfic Kohn (1993) [6]. A

monetary and non monetary incentive varies in their role, appropriateness depending upon their types and career stages of the employees. View above it should be tailor made rather than "One Size Fit All" approach. Scott Jeffrey (2003) [7] stated several principles in social and cognitive psychological say that an employee may perceive non monetary incentives to be more valuable than the retail value of the award in the cash. This is frequently referred as 'trophy value'. Ballentine et. al., (2003) [5]. Both monetary and non-monetary incentives are considered as workplace motivators. In their research found that the cash incentives constitute primary motivators, essential to fulfil needs and wants of the workforce. But Non monetary incentives have gained a more significance in the industries to enhance employee performance in present tight scenario and are more efficient in motivating the workforce. Jain KK, Jabeen Fauzia, Mishra Vinita and Gupta Naveen (2007) [8]. The important findings were the attitude feeling and emotions of the employee towards incentives in the organization play a vital role in determining their performance and behaviours. These in turn determine the success and growth of the organization. Dale S. Rose, Stuart D. Sidle and Kristin H. Griffith (2007) [9] in their study of monetary incentives found out that there was significant improvement in employees response rate with increased incentives

### Identification of the problem

Though the incentive schemes in general and monetary incentive schemes in particular have a lot of potentiality in improving productivity and other aspects of the organizational effectiveness. To the best of our knowledge not much empirical work has been done in India in

this area. The limited studies which have been carried out so far are in most cases purely behavioural in nature Gupta. (1975) [1]. Indian Pharmaceutical industry is one of the fastest growing sector of the economy There is a tremendous competition from world's best manufacturing industries operating in India. There are more than 20,000 registered units operating in pharma manufacturing. For a small scale entrepreneur operating in highly sophisticated and competitive pharmaceutical market, qualifying stringent quality parameters using low cost technology, retaining the best performing employees against the best pay masters, are some of the various serious challenges. The question was "can a small scale pharmaceutical entrepreneur improve its performance by giving incentives to employees to survive and grow in highly competitive market?" This study was carried out with the objective to achieve organization success by strengthening the internal processes i.e., through employees' performance by offering various monetary and non monetary incentives to deliver predefined results. The organisation under study was a small scale pharmaceutical enterprise. The name and details of the organisation is kept confidential in this paper as per secrecy promised. The unit was started by two young qualified brothers in year 2001, who believes in bringing changes through innovative practices in all the area of production and marketing. The philosophy followed by these entrepreneurs' was transparent and ethical businesses with the best quality products which can be used at their own home. As design of this study the organization success was measured through non tangible aspects like employee motivation and job satisfaction. Various quality and safety parameters like percentage reduction in wastage, reduced accidents on shop floor, market recalls, customer complaints formed tangible aspects of organizational Success. In this study, performance based production bonus, medical benefits, safety and quality rewards are covered under monetary incentives, whereas non-monetary incentive includes best performing department award, workmen of the month, opportunities for higher training and added responsibility like quality observers and certification training.

### Research Methodology

The theoretical design of the study was - the better monetary and non monetary incentive will have certain impact on employees' motivation, job satisfaction, and attitude which in turn translate into the quality of product they produce and safety awareness in terms of percentage wastage, accident rates and absenteeism and finally this will have overall effect on organizational success of the organization under study.

### Objectives

- To understand employees' perception of various incentives offered to them as a tool towards organization success.
- To study the reflection of incentive schemes on selected determinants of organizational success like accident rates, absenteeism and percentage wastage in production over three consecutive years.
- To evaluate and identify the relationship between monetary and non-monetary incentives offered on employee motivation and job satisfaction.
- To suggest improvements in incentive schemes package for effective operation of small scale entrepreneurial business.

### Hypotheses

H01 = Employees do not perceive incentive schemes as a tool to improve organizational success.

H11 = Employees perceive incentive schemes as a tool to improve organizational success.

H02 = The present monetary and non-Monetary incentive schemes does not lead to higher motivation and job satisfaction among the employees in the organisation.

H22 = The present monetary and non-Monetary incentive schemes lead to higher motivation and job satisfaction among the employees in the organizations.

H03 = The present incentive schemes did not reduce wastage, absenteeism, accident rate and customer complaints in the organization.

H33 = The present incentive schemes reduces - wastage, absenteeism, accident rate and customer complaints in the organization.

H04 = There is no positive co-relation between Motivation & job satisfaction with each other and also these are not positively correlated with attitude towards monetary and non – monetary incentive schemes.

H44 = There is positive co-relation between Motivation & job satisfaction with each other and also positively correlated with attitude towards monetary and non – monetary incentive schemes.

### Data collection

In the present study measure the tangible aspects (observed effects) were collected from the official data records and files of the various departments of the organization under the study. The secondary data required for the research study has also been collected through office records and the annual reports of the last three years i.e. 2006-07, 2007-08, 2008-09. The primary data was collected on non-tangible (perceived effect) aspects i.e. motivation, job satisfaction and employees attitude towards incentives through questionnaires, interviews and observations through 'walk-through-survey' methods. The self-reported

questionnaires were distributed to shop floor employees in various departments.

### Sample design

The total number of employees working in the organization under study were 112 in numbers. The secondary data was collected for all the employees. In primary data collection The 101 questionnaires were distributed through stratified random sampling method. The total 65 respondent gave complete replies. This includes 21 management, 18 supervisors and 26 workers. There were in total 37 Male and 28 Female respondents in the selected sample.

### INSTRUMENT

The collection or primary data on perceived effect was done by the method of questionnaire. In the first part of the questionnaire, the nature and the purpose of the work were explained and the assurances of complete secrecy of identity and responses of the respondents were given. Also some background information such as age, marital status, Designation was asked. In the second part there were 36 questions each on Likert's five-point scale distributed in 3 section. There was an open ended question for suggestion or remarks in the end with thanks note.

**Section I:** In this part related to motivation there were 15 questions representing five Maslow's type need categories. In this section, the respondents were asked to indicate their level of satisfaction or dissatisfaction in respect of the above needs.

**Section II:** This section consists of eight items developed at the Michigan University to measure job satisfaction. Theoretical model suggests rationale for combining "importance" and "satisfaction" rating on related concepts (Vroom, 1964; Porter, 1962).

**Section III:** This part of questionnaire measures the attitude of the respondents towards the present monetary and non monetary incentive schemes by use of 13 questions. These questions relate to the attitude of the respondents towards the necessity, effectiveness and gains from the present incentive schemes. There were three negative questions in this section. The reliability coefficient of this part of questionnaire was found to be very high.

### Data Analysis

Methods used for primary and secondary data analysis were, Comparison of mean scores and standard Deviation. The arithmetic mean ( $\mu$ ) was calculated with formula  $\mu = \sum(fx)/n$ , where  $x$  = value of the Observations.  $f$  = frequency of the value of the observation and  $n$  = no. of observations.

The Standard Deviation calculated by :  $\sigma^2 = \sqrt{\text{Variance}}$ . The variance is computed as  $\text{Variance} = \sum(x-\mu)^2$  where  $\mu$  = mean

For Simple co-relation test, Karl Pearson's formula was used. The co-eff of correlation is given by the formula

$$R = \frac{\sum(x - \mu_x)(y - \mu_y)}{N \sigma_x \sigma_y}$$

Where  $x, y$  are the variables,  $\mu_x, \mu_y$  are the mean,  $\sigma_x$  &  $\sigma_y$  are the Standard Means,  $N$  = total no. of observations.

In primary data percentage analysis was carried out on specific questions of questionnaire.

### Findings

The finding of the study was on two aspects i.e., 1) Observed effects, on data analysis of secondary data and 2) Perceived effect i.e. findings from primary data. These findings were compared against hypotheses. Observed (tangible) effects: On the basis of secondary data collected from April 2006 to March 2009 for three consecutive years. The mean results computed for various parameter are shown in table 1, followings observations are made on these results:

#### Absenteeism in man days per employee :

Over the three years in organization absentees has reduced to half after implementation of incentive schemes. Accident Rate per employee: the accident rates were reduced to half over the period of three years. Percentage Wastage calculated on per employee basis shows that the organization has moved from production loss to production gain in terms of yield. The wastage on account of physical, chemical, microbiological non compliance and impurities were also considered while specifying these results. In Customer Complaints, the customer complaints on quality of products were reduced to Nil, complaints on account of non availability of product / supply were increased. The market recall was reduced drastically from two product recalls from markets to nil recall in last year of the data collected. Adherence to predefined acceptance criteria: The product was made as per Indian Pharmacopeias' Standards to be sold in indigenous market. The incentive schemes have helped to get the product recognition in WHO and could be exported in other countries. All the above parameters the organization has out performed and showed best results after implementation of incentive schemes in year 2004. SO third Null hypotheses get rejected and alternate hypothesis was accepted as H33 = The present incentive schemes have reduced - wastage, absenteeism, accident rate and customer complaints in the organization .

**Perceived (Non tangible) effects:** The correlation was carried out to find out the strengths of bivariate relationship between different pairs of behavioral characteristics and attitude towards incentives. The correlation matrix in relation to the different variable has been obtained. When correlation was calculated considering the attitude towards the monetary and non monetary incentives as

independent variable and motivation and job satisfaction as dependent variable.

Results as shown in Table 2, the overall two independent variables have very good correlation which was highly significant. The correlation Between Monetary incentives and motivation was positive and highly significant. The correlation between attitude towards non monetary incentives and both motivation and job satisfaction was also found to be positive and highly significant.

These results rejected the second null hypothesis and alternate hypothesis H22 = The present monetary and non- Monetary incentive schemes lead to higher motivation and job satisfaction among the employees in the organizations was accepted.

The fourth Null hypotheses was also rejected and alternate hypothesis that was H44 = There is positive co-relation between Motivation & job satisfaction with each other and also positively correlated with attitude towards monetary and non – monetary incentive schemes was accepted.

#### Percentage analysis

In response to some specific questions related to quality enhancement through monetary and non monetary incentives, 95% of the respondents opined that their absenteeism has been reduce after introduction of the incentive schemes. 72% of employees felt more motivated and 69% employees felt more satisfied with their job after the introduction of incentive schemes. 81% respondents felt that production wastage has been reduced. 68% respondent felt the accidents rates were gone down and 89% of the respondents felt that quality of product have been improved. The 43% of employees have preferred the organisation giving better pay package over organisations giving better work facilities and career prospects. The above result shows the first null hypothesis is rejected and alternate hypothesis i.e. H11 = Employees perceive incentive schemes as a tool to improve organizational success was accepted.

#### Conclusion

In the study all the null hypotheses were rejected and alternative hypotheses were accepted. On the basis of these findings, it can be said with reasonable degree of confidence that a well design monetary and non monetary incentive schemes could be perceived positively and likely to increase motivation. As a result, employees remain more job satisfied and thus the schemes are able to increase the overall organisational success leading to reduction in employee absenteeism and percentage wastage . This was also evident from the fact that, in a short span of 10 years after its inception in December 2001 company has increased its turnover from Rs. 3 cr. to Rs. 10 cr. by exporting its product in four different countries. With the successful implementation of these

incentives another remarkable achievement was that organisation became the first small scale organisation which has got WHO recognition in India.

In Indian context and psyche as per the outcome of the study non monetary incentives were preferred over the monetary incentives, this may be due to self esteem and socio-cultural values.

This point is very important as far as small entrepreneurial businesses are concerned in India.

#### Suggestion

The monetary incentives should be inclusive of factors like number of days present, percentage yield achieved and nil LTA to take care of negative determinants of product quality like absenteeism, wastage and accidents respectively.

It is recommended that an emphasis should be given in formulating and percolating good non monetary incentives like rewards, appreciation letters, display names on notice board. These should be presented on the occasion when family get together are organised.

The data various factors for organisational success like stakeholders view, market growth, customer feedback, competitors, opportunities-threats to product and its correlation with their quality and production targets should be shared with all levels of employees.

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Table 1: Observed effects

| Year        |                | Absenteeism man-days/100 emp. | No. Customer complaints | No. of Accidents/100 emp. | Production Wastage% (+ loss / - gain)/ 100 emp |
|-------------|----------------|-------------------------------|-------------------------|---------------------------|--|
| First Year  | Mean           | 2.1927                        | 1.9216                  | 0.8812                    | 0.2172   |
|             | N              | 12                            | 12                      | 12                        | 12   |
|             | Std. Deviation | 2.82154                       | 2.55481                 | 1.65272                   | 3.57541  |
| Second Year | Mean           | 6.1264                        | 1.9014                  | 0.4389                    | -0.7105  |
|             | N              | 12                            | 12                      | 12                        | 12   |
|             | Std. Deviation | 16.8879                       | 2.53825                 | 0.79425                   | 2.51397  |
| Third Year  | Mean           | 0.8305                        | 1.4049                  | 0.3632                    | -0.5457  |
|             | N              | 12                            | 12                      | 12                        | 12   |
|             | Std. Deviation | 1.11671                       | 2.08504                 | 0.93068                   | 1.59773  |
| Total       | Mean           | 3.0499                        | 1.7426                  | 0.5611                    | -0.3464  |
|             | N              | 36                            | 36                      | 36                        | 36   |
|             | Std. Deviation | 9.88507                       | 2.34548                 | 1.17585                   | 2.64088  |

Table 2: Correlations –overall

|                         |                     | Monetary Incentives | Non-Monetary Incentives | Motivation Score | Job Satisfaction Score |
|-------------------------|---------------------|---------------------|-------------------------|------------------|------------------------|
| Monetary Incentives     | Pearson Correlation | 1                   | .211(*)                 | .467(**)         | 0.188                  |
|                         | Sig. (1-tailed)     | .                   | 0                       | 0.004            | 0.156                  |
| Non-Monetary Incentives | Pearson Correlation | .211(*)             | 1                       | .827(**)         | .489(**)               |
|                         | Sig. (1-tailed)     | 0                   | .                       | 0                | 0.003                  |
| Motivation Score        | Pearson Correlation | .467(**)            | .827(**)                | 1                | .492(**)               |
|                         | Sig. (1-tailed)     | 0.004               | 0                       | .                | 0.002                  |
| Job Satisfaction Score  | Pearson Correlation | 0.188               | .489(**)                | .492(**)         | 1                      |
|                         | Sig. (1-tailed)     | 0.156               | 0.003                   | 0.002            | .                      |
|                         | N                   | 65                  | 65                      | 65               | 65                     |

\* Correlation is significant at the 0.01 level (1-tailed).