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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

MONETARY INCENTIVES AS A MOTIVATION FACTOR:

A CASE STUDY OF MAJLIS PERBANDARAN

SEBERANG PRAI (MPSP) PULAU PINANG

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A STUDY OF THE EFFECTIVENESS OF USING
MONETARY INCENTIVES AS A MOTIVATION FACTOR:
A CASE STUDY OF MAJLIS PERBANDARAN
SEBERANG PRAI (MPSP) PULAU PINANG

BY

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ABSTRACT

This paper explains the effectiveness of using monetary incentive to motivate government servants to perform their job more effectively. It presents the results of a survey of government municipality monetary system practices based on the responses of 83 professionals and general workers.

In addition, the survey focuses on the most popular monetary incentive, the link between monetary incentives, and commitment as well as the observation of workers' satisfaction on current monetary incentives program.

The finding shows that most monetary incentive systems are perceived to be effective in increasing the motivation and productivity of government servants. This implies that monetary incentive is a primary factor to motivate government servants.

Also, this research argues that monetary incentive is not necessarily an effective means to motivate people to stay longer in a government organization. Instead they stay longer principally of job security.

The finding also shows that there is a direct link between monetary incentives and productivity. Policy makers in the government, therefore, may maintain monetary

incentive as one of the motivational means to encourage and enhance productivity of workers in the public sector.


APPROVAL PAGE

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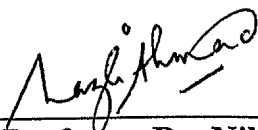
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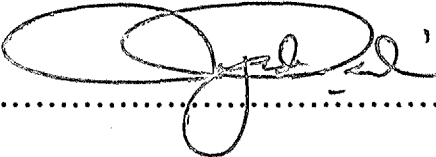


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DECLARATION

I hereby declare that this project paper is the result of my own investigations, except otherwise stated. Other sources are acknowledged by reference notes and a bibliography.

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DEDICATION

Dedicated to

My Father Mohd Daud b. Hussain

My Mother Norsiah bt. Mat Noor

My Sister Nordiana bt Mohd Daud

My Youngest Brother Muhammad Makhzumi b Mohd Daud

&

My Lecturers and Friends at

Kota Bharu Polytechnic, Kelantan 1990-1993

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CHAPTER ONE

INTRODUCTION

This chapter presents the background of the study, research problem, objective of the research, significance of the research, as well as definition of terms. The final section discusses about the organization of the study.

1.1 Background of the Study

Behavior of employees can be influenced or modified by using various motivation strategies. These strategies include environment cues or prompts, social support, goal setting, written agreement, and reinforcements such as feedback externally offered rewards. Such strategies are implemented by companies to encourage greater work attendance, increase client load, increase employee output, improve performance or improve involvement (Weinberg, 1995).

One of the common motivation strategies is the use of monetary incentives. The effects of money as a reward have been the subject of many studies involving companies and their employees over the years. The FACT (1989) survey found that 46% of eligible employees who were receiving monetary awards for their performance exceeded the company goal. The values of rewards offered, cash and non-cash, ranged from \$1-\$6,000.

Several applied studies have shown that people working under individual incentive conditions achieve a higher job performance than those working for hourly pay (Gaetani, & Austin, 1985; George & Hopkins, 1989). The performance was measured as the amount billed to customers per day. Hourly pay was arranged during the baseline phase. Following baseline, daily feedback on the total dollar amount billed to customers was given to the workers. A performance standard was developed based on historical performance levels. The result showed performance increased when daily feedback was provided. When the commissioned payment system was removed, performance worsened.

In addition, Bishay (1999) found that job satisfaction and motivation correlated significantly with responsibility levels, genders subject, age, years of teaching experience, and activity. For this group of teachers who work in school with a selective students' body, overall motivation and job satisfaction levels were high.

Awashti, Vidya; Pratt, Jamie (1990) agreed that monetary rewards are used to direct and control individual actions. Bonus system and budgets, for example, represent mechanisms intended to induce employees to exert additional effort and attain higher levels of performance. The usefulness of such systems is dependent on the underlying assumption that rewards contingent on performance motivate individuals to increase effort and performance.

1.2 Research Problem

The question of how to motivate workers has always been a difficult one for managers to answer. This is partly due to the fact that both researchers and practitioners have assumed for a long time that the force influencing individuals to act are only situational. Although monetary incentive is among the most powerful motivational technique that managers have applied, some researchers have reported some problems associated with the application of monetary incentives (Kohn, 1993; Markowich, 1993), as well as connecting monetary incentives to job performances (Wright, 1994). Kohn (1993) attacked the monetary incentives system and questioned its ability to modify human behavior over time.

In the same issue, Malaysian government has used monetary incentives, such as bonus and salary increment in motivating government servants. The public perceived government servants as being unmotivated and unproductive and this has made the government payment policy questionable. The focus of this study is to see the effect of monetary incentives towards high job performance and other issues, such as commitment of employees, popular incentives, and satisfaction of subordinates.

1.3 Objective of the Research

This paper reports the study of organizational behavior practices as embedded in government municipality in Malaysia. The research attempts to find out the effectiveness

of monetary incentive in improving job performance in a cultural setting that has not been the subject of previous interpretive organization behavior research. The study also makes a contribution towards more explanatory for monetary incentives as a social practice in the government municipality organization.

The research is to predict the effectiveness of monetary incentive on employees' performances, workers commitment, popular monetary incentives, and employees' satisfaction on the existing monetary incentive scheme.

The overall objective of the study is to examine the relationship between selected variables of monetary motivations as a tool of enforcer to employees job performance and the relation of monetary motivation in job performance. More specifically, the study attempts to determine:

- a. The nature of relationship between monetary incentives and job performance. Since, the public perceives that public servants are not motivated and have low work performance, when monetary incentives are offered, they tend to adjust their behaviors in relatively predictable ways, and come out with a high job performance.
- b. The extent to which whenever money is offered, yields a higher satisfaction.
- c. The extent to which whatever money is offered, yields a higher commitment.
- d. Employees are satisfied with government payment incentives.
- e. Monetary incentives are the first choice for subordinate.

1.4 Significance of the research

- 1.4.1 The study will help to advance our understanding the relationship between monetary incentives and job performance. As the public had perceived that government servants are unmotivated and unproductive, it appears that giving them monetary incentives could potentially to change their behavior and result in high performance. Hence, monetary reward could be used to enhance employees' performance.
- 1.4.2 The study will provide input whether employees are satisfied with the existing current payment policy.
- 1.4.3 This proposed study will provide sufficient evidence that monetary rewards encourage workers to stay longer in the organization.
- 1.4.4 This proposed study will provide input whether wage increment and bonus are popular monetary incentives.
- 1.4.5 The study will provide useful guide to whether monetary incentives lead to improved job performance.

1.5 Definition of Terms

For the purpose of this study, special terms are defined as follows:-

1. *Motivation* - the use of monetary tools, for example bonus, profit sharing, and others in arousing, directing and maintaining human behavior towards attaining specific goals.

2. *Expectancy* – the belief that one’s effort will result in performance.
3. *Instrumentality* – the belief that one’s performance will be rewarded.
4. *Valences* – the perceive value of the rewards to the recipient.
5. *Job performance* – refers specifically to the performance of managerial employees in Majlis Perbandaran Seberang Prai (MPSP).

1.6 Organization of the Study

This study is organized into five chapters;

Chapter One presents an introduction and background of the study, research problems, objectives of research, significance of the study, and definition of major terms.

Chapter Two is divided into four main sections. The first section describes the literature review on monetary incentives and explains the effectiveness on monetary incentive on job performance, commitment, workers' satisfaction and the most popular incentives.

Chapter Three presents the research methodology that is used in the collection and the analysis of the data.

Chapter Four reports the results of the data collection and analysis. SPSS is used to analyze the data as well as the interpretation of the data collection.

Chapter Five concludes this study by discussing the major findings and implications for both practitioners and academicians. This chapter ends with several suggestions for future research into this area.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter presents the literature review on definition of motivation, monetary incentives, and an example of monetary incentives. The final section discusses various issues related to monetary incentives and job performances, commitment, popular incentive, workers' satisfaction and hypotheses in each issue.

2.1 Literature on Motivation and Monetary Incentives

The importance of money as a motivator has been consistently downgraded by most behavioral scientists. They prefer to point out the value of challenging jobs, goals, and participation in decision making, feedback and other monetary and non-monetary factors as stimulants to employee motivation (Doyle, 1992).

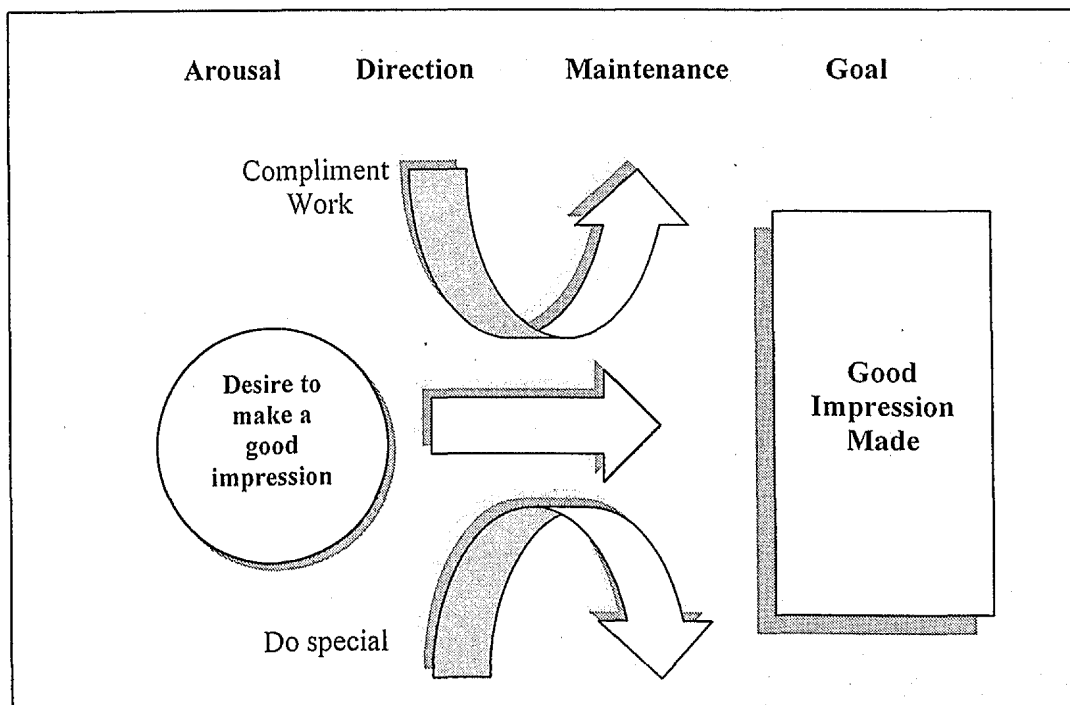
Motivation can be achieved by a system of fair appraisal on individuals and groups, and rewards based on those appraisals may also be used. The rewards may be intrinsic, like public recognition, or extrinsic, such as monetary incentives. So, money value as a medium of exchange is obvious.

2.2 Definition of Motivation

The concepts of monetary motivation, which appeared to suit the purpose of this study, is the one that combines the views of Locke & Jasson (1980) defined motivation as the willingness to exert high levels of effort toward organizational goals, conditioned by the effort's ability to satisfy some individual need. Pinder (1984) defined motivation as the force that initiates, directs, and sustains personal behavior and action.

Figure 1

Greenberg's & Baron's Motivation Model



(Source 1: Jerald Greenberg & Robert Baron, 1997, p 142.)