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## THE USE AND PERCEIVED EFFECTIVENESS OF NONFINANCIAL INCENTIVE PROGRAMS IN THE GREATER BATON ROUGE AREA

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THE USE AND PERCEIVED EFFECTIVENESS OF  
NONFINANCIAL INCENTIVE PROGRAMS  
IN THE GREATER BATON ROUGE AREA

a thesis  
presented by  
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in partial fulfillment of  
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## Table of Contents

Abstract . . . . .	1
Introduction . . . . .	2
Hypotheses . . . . .	13
Method . . . . .	14
Results . . . . .	16
Discussion . . . . .	29
Conclusion . . . . .	33
References . . . . .	34
Appendix A . . . . .	37
Appendix B . . . . .	40
Appendix C . . . . .	41

Abstract

Nonfinancial incentive programs have been gaining popularity during the past few decades. This paper begins with a brief examination of what these incentives are, including their goals and various specific programs, and provides some insight into the variety of options available. The study examined the use and perceived effectiveness of nonfinancial incentive programs in the Greater Baton Rouge area. It specifically looked at how wide-spread the programs are and how various firm dimensions such as employer size, industry classification, and wage level are related to the use of nonfinancial incentives. Employers reasons for implementing the programs and their choice of program were also examined. The results of the study indicate that nonfinancial incentive programs are popular across a wide range of employers and industries, regardless of size and wage level. The most popular reason given for the implementation of such programs was increasing company loyalty. A few anomalies were found, such as the low use of certain programs that were rated as quite effective. The study gives a broad picture of the use of nonfinancial incentive programs in the Greater Baton Rouge area and provides some insight for future study in this field.

## Introduction

Nonfinancial incentives, including employee participation and development programs, career management, flexible hours and recognition programs, have been gaining popularity among human resource professionals for the past few decades. Some programs stem from a human relations origin traceable to the Hawthorne studies, whereas other programs have their roots in the 1960's move toward commitment-based work strategies (Kochan, Katz and McKersie, 1986). Others have been adapted from Japanese management techniques in an attempt to replicate their success. The general purpose of these programs has been to increase employees' commitment to the organization, as well as their motivation and job satisfaction. Through these changes, employers hope to improve quality, productivity and competitiveness.

This study will examine the use and perceived effectiveness of nonfinancial incentives in the Greater Baton Rouge area. For the study, I have defined nonfinancial incentives as employment outcomes that do not directly affect an employee's wage or benefits (Hills, 1987). These incentives may include some economic component - such as tuition assistance - but are nonfinancial in that the employee does not receive any cash in hand. Nonfinancial incentives try to fulfill employees needs beyond a paycheck, such as needs for achievement and social interaction (Hills, 1987). In his book, Compensation Management: Rewarding Performance, Richard Henderson

(1989) outlined the seven dimensions of what he termed "noncompensation rewards". These factors illustrate the goals such programs are trying to meet and emphasize the wide scope of nonfinancial incentives. The goals cited by Henderson (1989) include:

- enhancing dignity and satisfaction from work performed;
- promoting constructive social relationships with co-workers;
- allocating sufficient resources to perform work assignments;
- offering supportive leadership and management;
- enhancing physiological health, psychological well being, and emotional maturity;
- designing jobs that require adequate attention and effort; and,
- granting sufficient control over the job to meet personal demands.

The various programs used by employers include one or several of these components, traceable to concerns with human relations that have been evident over the years. Given the promise of improved employee relations, many employers have rushed to embrace nonfinancial incentive programs as evidenced by the enthusiastic plaudits given by Hilton (1992), Koch (1990), Mangan (1992) and others.

### Purpose

The purpose of this study was to examine the use and perceived effectiveness of nonfinancial incentives in the Greater Baton Rouge area. It will try to determine how widely nonfinancial incentive programs are used, why companies choose to implement these programs, which programs are used

most often and which are seen as most effective. By compiling this information and examining it further along industry, company size and employer wage level dimensions, I hope to provide insight into what is being done - and what is working - now in hopes of offering guidance to more effective use of these programs in the future. I hope the guidance will lead to both increased success in the use of such programs and to increased benefits for both employers and employees.

#### Definition of Terms and Categories

In reviewing the literature on nonfinancial incentives, I found no commonly used method for grouping the various programs, thus, I attempted to categorize the specific incentive methods according to common elements or purposes. Grouping the different nonfinancial incentive techniques based upon commonalities such as employee involvement and personal development emphasis resulted in the creation of four categories of nonfinancial incentives: Participation/Employee Empowerment; Personal/Professional Growth; Organization Structure, Policies and Procedures; and Miscellaneous. Before explaining the structure of the study, I will examine each category of nonfinancial incentives briefly to provide an overview of the programs considered.

The category of Participation/Employee Empowerment included MBO, participative management, quality circles and suggestion programs. Since

suggestion programs differ slightly from the general type represented by the first three methods, I will consider them separately.

A recent article by Thomas and Velthouse (1990) defined empowerment as "increased intrinsic task motivation" (p. 666). They use empowerment as a label for "alternative forms of management that encourage commitment, risk taking and innovation" (p. 667). Under this approach, a company emphasizes internalization of stated goals and relaxes supervisory controls. Employees work with considerable autonomy toward these goals. Thus, workers are motivated by the work they do, and are given only the broad guidance of company goals instead of being pushed to work by constant supervisory monitoring.

MBO, quality circles and other participative management programs work toward empowerment of employees. Quality circles promote satisfaction of non-economic needs for achievement, autonomy and responsibility in their efforts to solve quality problems (Hills, 1987). MBO, by allowing employees to form their own objectives consistent with company goals, helps employees feel that they are contributing to the organization (Hills, 1987). Such participative management programs are designed to promote positive affect, or "good feelings", toward the organization. They increase employees' concern about, and commitment to, their jobs, thus making the work itself more intrinsically motivating. Participative management programs are still used



extensively in applied settings (Foxman and Polsky, 1991; Oates, 1992; Rood and Meneley, 1991; Rotham, 1993).

Suggestion programs also foster a participative spirit because they give employees an opportunity to offer their expertise to improve the way jobs are done. The belief is that, since employees do the work every day, they can offer valuable insight as to what improvements can be made to the organization and its performance. Employee suggestion programs can boost morale and make employees feel they are valuable members of the organization since their ideas can directly affect both the way a job is done and the bottom-line (Matthes, 1992). The savings these programs generate are an added bonus to employers; in 1990, the average savings per suggestion was \$7,103, according to a survey by the National Association of Suggestion Systems in Chicago (Mangan, 1992). The current popularity of suggestion programs is evidenced further by recent publications promoting their use (Steele, 1992; Verespej, 1992). Steele (1992) and Verespej (1992) also provide information regarding the structure and use of the systems.

Personal/Professional Growth was the second category of nonfinancial incentives and included programs designed to increase employee skill, knowledge or responsibility; employees participating in these programs learn new skills, or perhaps tackle a different aspect of a job. The programs attempt to influence job satisfaction or promote goodwill toward the company, thereby increasing commitment. Job enrichment and job enlargement are discussed

here as ways to improve job satisfaction. Job enlargement involves adding more tasks of an equal skill and responsibility level in an attempt to let a worker do a "whole job", while job enrichment adds greater responsibilities to a single job such as quality control responsibilities. These techniques often are based on Hackman and Oldham's Job Characteristics Model which says that intrinsic motivation comes from the experienced meaningfulness of the work, experienced responsibility for outcomes of the work, and knowledge of the actual results of the work. These three factors are determined by five core job characteristics: skill variety, task identity, task significance, autonomy and feedback (Hackman and Oldham, 1980). Increasing any of the core job characteristics should increase an employee's intrinsic motivation and thus promote increased job satisfaction. Job enlargement and job enrichment seek to increase some of the five factors in an attempt to increase satisfaction. Lawler (1990) provided a detailed commentary on the positive effects of these programs over time, and Perleman (1990) offered insight regarding the outcomes of allowing employees to participate in this redesign process.

Companies may employ other programs that promote learning as a way to increase job satisfaction. These "learning" programs also promote commitment and positive affect toward the company. Technical skills training can promote greater job satisfaction since it can allow employees to move to more challenging jobs or enable them to perform their current job more skillfully. Professional and management development programs may involve in-

house training programs, or sponsorship to professional associations or professional development programs. They may also include supervisory training, which provides advancement opportunity. Companies may also offer education program assistance, perhaps in the form of a company literacy program or tuition reimbursement plan, thus increasing positive affect toward the company.

The Organizational Structure, Policies and Procedures category included a variety of programs that allow employees to meet their personal needs within the context of the company's structure. Job posting and bidding systems allow employees to self-select into jobs that meet their personal needs and career goals. Job rotation involves the movement of an individual from one job to another to allow them to develop more skills; this can help in their bids for advancement. A career path provides an employee with a means to assess his or her progress and plan for future job movements. It also provides a framework to allow employees to take some personal control over their progress within the company. These programs allow employees a sense of control that can increase job satisfaction.

Flexitime, job sharing and modified work-weeks represent employers' acknowledgement and accommodation of the diverse responsibilities today's employees face. Flexitime programs allow employees to modify their work hours; the flexible hours are built around a core time when all employees must be at work (Hills, 1987). Recent evidence indicates a growing use of flexitime

("Trends", 1991). Job sharing, which involves the responsibilities of a single job being shared by two part-time workers, and modified work-weeks, which generally allow employees to work a 40-hour work-week in four 10-hour days, provide similar flexibility to employees (Henderson, 1989). These choices provide accommodations that can ease an employee's performance of their diverse roles on and off the job, and thus promote good feeling toward the employers because of their understanding and assistance.

Organizational due process, which stems from union grievance procedures, is yet another organization procedure that can impact employee morale. These programs tend to be less formal in non-union settings - perhaps consisting of as little as an "open door" policy - but some of the programs model union versions up to and including binding arbitration as a final step. Other variations may be internal tribunals, peer review panels or the use of an ombudsman to investigate and solve employee problems (McCabe and Lewin, 1992). All of these programs help dissatisfied employees become satisfied once more and emphasize that their employer is concerned about them and their fair treatment.

The Miscellaneous category contains a number of additional programs that can increase motivation and job satisfaction. The most important of these is the recognition program. Recent information indicates that "recognition for a job well done is the top motivator of employee performance" (Stuart and Grant, 1992). These programs can range from Employee of the Month awards

to recognition for a one-time superior achievement or a simple "well done" from a supervisor. As long as employees perceive the program to be a sincere effort on the part of management, and rewards are given in a timely manner, employers can expect positive results. Examples of successful recognition programs can be found in Koch (1990), O'Neal (1992) and Weinstein (1992).

Company-sponsored social events are another motivational tool. Small office parties bring a sense of camaraderie that can increase job satisfaction. More formal holiday receptions or awards banquets also provide a significant opportunity to increase positive affect toward the company, especially if employees' significant others are invited - this increases their sense of achievement by allowing them to share their success. An impressed spouse can also become a significant company asset by adding his or her support to keep the employee with the company! A recent Inc. article ("Deck Your Halls", 1991) attested to the importance of social functions to in improving morale, especially in troubled times.

Henderson (1989) asserts that maintaining a clean and attractive work area, and keeping noise at tolerable levels, also makes for a more satisfying work environment. Although some take a pleasant, comfortable work environment for granted, it is an important consideration to others who are not as fortunate. While most employers keep standards high enough for safety and health concerns, special considerations beyond this - such as attractive decor - may be considered nonfinancial incentives. Additionally, providing

ergonomically-sensitive equipment for workers whose jobs involve a lot of eye or hand straining tasks will certainly increase their job satisfaction - and overall productivity (Henderson, 1989).

Employee Assistance Programs are designed to provide guidance and assistance to employees dealing with personal problems such as stress, family tension or substance abuse. The existence of such a program highlights an employer's concern for an individual's problems and their willingness to provide support. Awareness of their employer's concern and commitment can increase employee satisfaction (Roman, Blum & Bennett, 1987).

Cafeteria or flexible benefit plans let employers modify, and even increase, their range of benefit options, and thus enable companies to remain responsive to employee needs. Cafeteria benefit plans involve employees more directly in the benefits process by allowing them to choose the coverage they personally need from a menu of choices (Baker, 1991). This option better accommodates the needs of a diverse work-force and promotes satisfaction by providing more benefit options and the freedom to choose among the alternatives. Some guidelines for the use of cafeteria plans can be found in Meade, Swenson, Lerner and Fuller (1992) and Schorr and Faulkner (1992).

Some employers are also using company-sponsored day care to respond to the needs of parents in the work-force. There is strong employee demand for this type of program and, though many employers are reluctant to supply it, the number of companies offering this benefit is currently on the rise

(Woolsey, 1992). Employers believe these programs can be invaluable incentives in their efforts to attract and retain employees (Milkovich, 1993). A study of the effects of company-sponsored day care conducted by the Health & Human Services Department found that companies offering these programs reported increased morale (90% of surveyed companies), decreased turnover (65%) and benefits that "far outweigh" the costs (95%) ("A Woman's Place", 1987). More information on employee needs and employer response in this area can be found in Schachner (1991) and Wojcik (1991).

### The Present Study

As indicated earlier, this study was designed to examine the use of nonfinancial incentive programs in the Greater Baton Rouge area. Specifically, I wanted to determine the:

- percentage and type of companies using nonfinancial incentives;
- types of nonfinancial incentives in use;
- reasons for use of nonfinancial incentives; and,
- perceived effectiveness of the nonfinancial incentives currently in use.

It was my belief that survey information regarding the use of various nonfinancial incentives would allow me to test a set of hypotheses regarding the use of such incentives. As there is no previous research in the use and effectiveness of nonfinancial incentives, I formed a set of hypotheses based on my research and discussions with professionals about nonfinancial incentives.

The following hypotheses were posited:

- 1) Employers will generally consider nonfinancial incentive programs to be effective and their use will be wide-spread.
- 2) Use of nonfinancial incentives will increase with employer size; I feel large firms are more likely to possess the flexibility and expertise in the human resources field that facilitate the implementation of these programs.
- 3) The employer's industry classification will influence the type of nonfinancial incentive program chosen; certain programs seem to be more popular or appropriate to certain industries. For example, a hospital would be more likely to use flexitime than a manufacturing firm because of production-line staffing requirements in manufacturing.
- 4) High and low wage level employers, regardless of size, will be equally likely to use nonfinancial incentives; high wage employers will use them as part of their total compensation strategy and low wage employers will use them to make up for their pay shortfalls. No predictions are made for the middle wage tier employers.
- 5) The primary reason for implementing nonfinancial incentive programs will be financial constraints. Since these programs seem to come to the fore when companies experience financial constraints, I believe that employers see them as a response to economic shortcomings.
- 6) An employer's stated reason for implementing a nonfinancial reward program will influence their choice of program. Hence, I believe the relative frequency of use and perceived effectiveness of different programs will vary as a function of the employer's stated reason for use of the program.



## Method

### Subjects

The subject firms were 38 (44.71 %) of the 85 companies surveyed. All belonged to the Greater Baton Rouge Society for Human Resource Management (GBR-SHRM), the local professional chapter of the national professional association. These companies represented a cross-section of industry and include locally-owned firms and subsidiaries of national corporations. The questionnaires were completed by human resource professionals within the surveyed companies.

### Survey Instrument

Data was gathered using a mail survey in the GBR-SHRM monthly organizational mail-out. The survey covered one page (front and back) and was set up in a multiple-choice format with optional written responses. It was designed to take minimal time to complete in an attempt to maximize response rate. The survey was accompanied by a short letter defining the purpose and a self-addressed stamped envelope. (Please see Appendix A for the survey and letter.)

### Procedure

Following research in a number of texts and periodicals, I compiled a list of nonfinancial incentive programs to include in the survey. With the assistance of my advisor, I divided the programs into the four categories mentioned earlier: Participation/Employee Empowerment; Personal/Professional Growth; Organizational Structure, Policies and Procedures; and, Miscellaneous. I also worked with my advisor and questioned several professionals in determining my choices of responses about the basis for assessing effectiveness of nonfinancial incentive programs and employer reason for implementing nonfinancial incentive programs. My categories for industry type and response options for number of employees were based on the categories used by William M. Mercer, Inc. in the 1993 compensation survey conducted for GBR-SHRM (Reynolds, 1993). (Please see Appendix B.)

Once the survey was complete, it was mailed to the 110 individual members of GBR-SHRM with the stipulation that only one questionnaire should be completed for each of the 85 companies represented in the local chapter. Approximately one week after the members of GBR-SHRM received the survey, I spoke to the group at their monthly meeting. This gave me an opportunity to reiterate the purpose of my research and appeal to the members to complete the survey. This presentation was made in an attempt to increase the questionnaire response rate. The participants were given one month to respond to the questionnaire.

## Results

### Descriptive Statistics

After collecting the survey data, I prepared a series of descriptive statistical data summaries. The data summaries are presented in Tables 1 - 8. It should be noted that 100% of the sampled companies reported using some type of nonfinancial incentive program.

### Tests of Hypotheses

***Hypothesis 1*** This hypothesis dealt with nonfinancial incentives on a very general basis to get an overall image of their use and perceived effectiveness. Of the companies surveyed, 100% used some nonfinancial incentive program; companies used an average of 13.55 programs. Table 1 shows which programs were the most popular, giving the percentage of companies using each of the nonfinancial incentives. Some companies used programs not listed on the questionnaire. These included: TQM (5%), involvement teams (3%), quality action teams (3%), nonexempt incentive programs (3%), and 401k plans (3%). As expected, the use of the programs was quite widespread.

The information on perceived effectiveness was judged subjectively by surveyed firms. The methods for evaluating effectiveness were as follows: personal observation (86%), various "hard" measures (28%) and employee

Table 1

<b>Nonfinancial Incentive Program</b>	<b>Percentage of surveyed companies using this program</b>
pleasant, comfortable work environment	97%
professional and management development programs	95
technical skills training	89
company sponsored social events	87
cafeteria benefit plan	84
education program assistance	84
job posting/bidding systems	84
recognition programs	79
employee assistance programs	68
organizational due process	68
career paths	63
job enrichment	63
suggestion programs	61
participative management	55
job enlargement	47
job rotation	47
flexitime	45
modified work week	42
quality circles	34
MBO	24
job sharing	18
company-provided day care	11

**Table 2**

<b>Nonfinancial Incentive Program</b>	<b>Average effectiveness score</b>
company-provided day care	3.50
pleasant, comfortable work environment	3.49
company sponsored social events	3.48
professional and management development programs	3.42
education program assistance	3.41
quality circles	3.38
technical skills training	3.35
participative management	3.33
recognition programs	3.30
job enrichment	3.29
flexitime	3.24
cafeteria benefit plan	3.22
job posting/bidding systems	3.22
employee assistance programs	3.19
career paths	3.17
job sharing	3.14
modified work week	3.13
organizational due process	3.04
suggestion programs	3.04
MBO	3.00
job rotation	2.94
job enlargement	2.89

feedback (89%). One company also used a survey to measure the effectiveness of their nonfinancial incentives. Thirty-six of the 38 surveyed companies specified methods for determining effectiveness. Some employers used more than one method, therefore the responses do not equal 100 percent.

By averaging the effectiveness ratings given to each program, I was able to establish which of the programs were seen as the most effective. The effectiveness rankings in Table 2 are on a scale of 1 to 4 with four as the most effective. Of the five programs written in, the nonexempt incentive program and 401k plan both received rankings of 4, and the involvement teams and quality action teams both received a 3. Since each of the programs had only one score, these do not provide meaningful normative data. TQM, which had two responses, also received an effectiveness score of three.

In examining the data on perceived effectiveness, the positive effect of the nonfinancial incentive programs is apparent. If we consider an overall rating of 2.5 or greater to indicate a positive effect, all 22 of the nonfinancial incentive programs were considered effective; even if we chose 3.0 (the ranking for "some positive effect") as the cut-off for a positive rating, 20 of the 22 programs still met this criteria.

From this analysis, we can conclude that nonfinancial incentive programs are very widespread and are generally seen to have at least some positive effect. Thus, hypothesis 1 is supported by the available data.

**Hypothesis 2** In examining the use of nonfinancial incentives in relation to firm size, I looked at the average number of programs used per firm in each of the six size classifications. Two of the firms did not provide size data. My results are summarized in Table 3. While my small sample size did not permit any meaningful statistical analysis, these responses seem to show no strong relationship between employer size and use of nonfinancial incentives. Hypotheses 2 is therefore not supported.

**Table 3**

Size of Company	Number of Companies in the Category	Average Number of Nonfinancial Incentive Programs
under 100	4	14.50
100 - 299	9	13.44
300 - 599	8	12.63
600 - 899	1	15.00
900 - 1,199	5	14.60
1,200 and over	9	13.89

**Hypothesis 3** Looking at industry classification and type of nonfinancial incentive program chosen, I was able to find some relationships between type of industry and preferred nonfinancial incentive program. These results are summarized in Table 4. The "other" category included: retail, utility (2), consulting engineers, temporary service, food, wholesale, services, packing,

**Table 4****Percent of Companies Using Each Type of Nonfinancial Incentive Program  
(by industry)\***

Nonfinancial Incentive	Chemical	Financial	Health	Manufacturing	Public	Other
MBO	100%	43%	50%	25%	14%	8%
participative management	100	71	83	75	43	42
suggestion programs	100	43	67	75	29	75
quality circles	100	29	67	0	0	42
job enrichment	100	57	33	100	43	75
job enlargement	100	43	33	50	43	58
technical skills training	100	100	67	100	100	83
professional and management development programs	100	100	100	100	86	92
education program assistance	100	100	100	100	57	75
job rotation	100	71	17	75	29	42
career paths	100	43	67	50	71	67
job posting/bidding systems	100	86	100	100	100	58
flexitime	0	43	67	50	71	25
job sharing	0	0	50	0	14	25
modified work-week	0	43	50	50	43	42
organizational due process	100	71	33	100	71	58
recognition programs	100	86	100	100	43	83
company sponsored social events	100	100	100	100	29	100
pleasant, comfortable work environment	100	100	100	100	100	92
employee assistance program	100	43	67	75	86	67
cafeteria benefit plan	100	100	83	75	100	58
company-provided day care	0	0	67	0	0	0

\*The numbers of companies in each of the industry classifications were as follows: chemical (1), financial (7), health (6), manufacturing (4), public (7) and other (12).



engineering, and communication. Thirty-seven of 38 respondents gave an industry classification.

Some notable variations in program choice include the lack of quality circles in the manufacturing and public sectors, the extremely low use of company sponsored social events in the public sector and the comparative lack of technical skills training in the healthcare industry. On the other hand, the healthcare industry boasts considerably more company-sponsored daycare programs than any other industry and manufacturing is particularly strong in the job enrichment category. These results support hypothesis 3; it seems that nonfinancial incentive programs are chosen, at least to an extent, along industry lines.

***Hypothesis 4*** Using data for industry wage levels from the 1993 GBR-SHRM compensation survey, I examined the relationship of employer wage level with the use of nonfinancial incentive programs. (See Appendix B for an explanation of wage level breakdown.) I divided employers into high, medium and low wage level categories and determined the average number of programs used by the companies in each category. These results are summarized in Table 5.

Once again, the small sample size precluded statistical analysis. There seems to be no significant difference in the use of nonfinancial incentive programs among high and low wage firms. There is a slight dip in the middle-tier firms, but even this seems insignificant to merit speculative interpretation. Hypothesis 4 appears to be supported by the data in that the average number

of nonfinancial incentives used by high and low wage employers is similar, 15.80 and 14.23 respectively.

**Table 5**

Employer Wage Level	Number of Companies in the Category	Average Number of Programs per Company
high (chemical, manufacturing)	5	15.80
medium (public, other)	19	12.47
low (health, finance)	13	14.23

***Hypothesis 5*** The reasons firms gave for implementing nonfinancial incentive programs are summarized in Table 6. Please note that the percentages do not add to 100% because respondents were able to choose more than one answer. Since hypothesis 5 specifically predicted that financial constraints would be the most prevalent reason for using nonfinancial incentives, one could argue that this hypothesis was not confirmed. Financial constraints were reported by 53% of the respondents as their reason for implementing nonfinancial incentive programs; increasing company loyalty was reported by 78% of the respondents.

Two observations can be made, however, that suggest an outright rejection of hypothesis 5 is inappropriate. First, financial constraints were the second most frequently listed reason for initiating a nonfinancial incentive program and were cited by just over half (53%) of the respondents. Secondly, one can question the questionnaire item and responses themselves. If one

argues that financial constraints are in fact an underlying motive in the initiation of the program and that company loyalty is really the goal of the program, it could well be that companies in general are interested in increasing loyalty (78%) and that companies experiencing financial constraints (53%) are likely to pursue greater company loyalty through nonfinancial incentive programs. Therefore, when they are present, financial constraints are a very important factor in the decision to implement a nonfinancial incentive program. While the results are equivocal, this data indicates that hypothesis 5 is not entirely without merit.

**Table 6**

<b>Reason for Implementing Nonfinancial Incentive Program</b>	<b>Percent Choosing This Option</b>
financial constraints	53%
competitors implemented similar program	34
company decision-maker learned of value	47
decrease pro-union sentiment	9
increase company loyalty	78

***Hypothesis 6*** Analysis of the relative frequency of use and perceived effectiveness of the various nonfinancial incentive programs, as a function of the employer's stated reason for implementing the incentives required considerable data analysis. The tables containing the complete data for this hypothesis are available in Appendix C. Table 7 provides a summary of the five

Table 7

The Five Most Used Nonfinancial Incentive Programs for Each of the Five Reasons for Implementation\*

Financial Constraints	Competitors Implementation of a Similar Program	Company Decision-Maker Learned of Potential Value	Decreasing Pro-Union Sentiment	Increasing Company Loyalty
-pleasant, comfortable work environment (100%)	-pleasant, comfortable work environment (100%)	-pleasant, comfortable work environment (100%)	-cafeteria benefit plan (100%)	-pleasant, comfortable work environment (100%)
-professional and management development programs (94%)	-technical skills training (100%)	-professional and management development programs (93%)	-company sponsored social events (100%)	-professional and management development programs (100%)
-job posting/bidding systems (83%)	-company sponsored social events (91%)	-company sponsored social events (87%)	-employee assistance program (100%)	-company sponsored social events (96%)
-cafeteria benefit plan (82%)	-education program assistance (91%)	-job posting/bidding systems (87%)	-pleasant, comfortable work environment (100%)	-education program assistance (88%)
-company sponsored social events (82%)	-professional and management development programs (91%)	-technical skills training (87%)	-professional and management development programs (100%)	-technical skills training (88%)
-technical skills training (82%)			-recognition programs (100%)	
			-technical skills training (100%)	

\*"Financial Constraints" and "Decreasing Pro-Union Sentiment" have six and eight reasons listed respectively to accurately represent ties. Tied programs are listed in alphabetical order.

**Table 8**

**The Five Nonfinancial Incentive Programs Perceived as Most Effective  
for Each of the Five Reasons for Implementation**

<b>Financial Constraints</b>	<b>Competitors Implementation of a Similar Program</b>	<b>Company Decision-Maker Learned of Potential Value</b>	<b>Decreasing Pro-Union Sentiment</b>	<b>Increasing Company Loyalty</b>
-company provided day care (3.50)	-pleasant, comfortable work environment (3.64)	-professional and management development programs (3.57)	-company provided day care (4.00)	-company provided day care (3.50)
-education program assistance (3.50)	-professional and management development programs (3.60)	-company sponsored social events (3.54)	-quality circles (4.00)	-quality circles (3.50)
-quality circles (3.43)	-company sponsored social events (3.50)	-pleasant, comfortable work environment (3.53)	-pleasant, comfortable work environment (3.67)	-pleasant, comfortable work environment (3.48)
-cafeteria benefit plan (3.36)	-flexitime (3.50)	-job sharing (3.50)	-professional and management development programs (3.67)	-company sponsored social events (3.46)
-pleasant, comfortable work environment (3.35)	-participative management (3.50)	-technical skills training (3.46)	-job posting/bidding systems (3.50)	-professional and management development programs (3.44)

most used programs and Table 8 summarizes the five programs perceived to be the most effective as a function of the stated reason for implementation. It should be noted that data for companies choosing "decreasing pro-union sentiment" as their reason for implementation do not have much comparative value since only three companies chose this option.

Table 7 shows the similarity in the types of programs most commonly implemented regardless of the underlying reasons for implementation. Comparison of the data in Table 7 with the data in Table 1, which shows the relative frequency of use of nonfinancial incentive programs in general, reveals that all but two of the programs listed in Table 7 are in the top one-third of the programs used in general. Even the two nonfinancial incentive programs not among the first seven, recognition programs and employee assistance programs, are ranked eighth and ninth respectively in Table 1. The slight differences in relative ranking among the programs are just as easily attributable to sampling error variations as to actual difference in use.

A similar comparison of Table 8 and Table 2 data does show some slight variations in the programs perceived to be the most effective. While most programs in Table 8 were among the top one-third of programs in Table 2, each category of reason for implementation, except for "increasing company loyalty", had at least one program that was outside of the top seven. They were as follows: cafeteria benefit plan (#12) for "financial constraints", participative management (#8) and flexitime (#11) for "competitors

implementation of a similar program", job sharing (#16) for "company decision-maker learned of potential value", and job posting/bidding systems (#13) for "decreasing pro-union sentiment". This may indicate that these programs are more effective for solving those particular problems, but the results are by no means conclusive.

Hypothesis 6 must therefore be rejected since the results do not show meaningful differences among the relative frequency of use and perceived effectiveness of the programs. While a few programs show some slight variations, the results can not be generalized to the extent that they would support the hypothesis that an employer's stated reason for implementing a nonfinancial incentive program would affect its choice of program.

### Discussion

The results of my study indicate that nonfinancial incentives are indeed pervasive in this sample. It does seem, however, that companies need to take a closer look at the programs they choose to implement. Some of my results indicate that companies are neglecting some very effective incentive programs. For example, quality circles and company-provided day care received very high effectiveness ratings overall, 3.38 and 3.50 respectively. However, quality circles are used by only one-third of the companies in this study and day care is provided by only 11% of the sample. It is important that companies reevaluate their nonfinancial incentive choices in light of such findings.

It seems that nonfinancial incentive programs are popular across a wide range of employers and industries. They are found and appreciated in both large and small firms. They also exist among employers paying from the highest to the lowest wage level. The business-wide pervasiveness of the nonfinancial incentive programs suggests that they are considered effective and attractive tools for human resource managers and business.

Despite their generally widespread use, there are some specific nonfinancial incentive programs that seem preferable in certain industries. Many of these were mentioned in the Results section. Some highlights include the widespread use of company-provided day care in the healthcare industry and the relative lack of company sponsored social events in the public sector. While these variations could be attributed to the idiosyncratic choices of



industry members, the large differences would seem to indicate some rationale behind these choices. Perhaps these are the programs that experience has shown to work the best in the given industry, or perhaps certain industry conditions are more conducive to the use of certain programs. In certain cases, such as the healthcare industry, it may even be the labor market that dictates the prevalence of certain programs, such as company-provided day care. Whatever the case, it seems that people new to the use of nonfinancial incentives would do well to study their industry for guidance in the selection of appropriate programs.

There are a number of reasons why employers choose to implement nonfinancial incentive programs. They may be suffering from financial constraints, or their competitors may offer their employees similar programs. Sometimes, all it takes is for an influential member of the organization to learn about the programs, perhaps at a conference or through business publications. Other firms may use the programs to decrease pro-union sentiment or increase company loyalty. One surveyed firm indicated that their programs were implemented because they fit in with the firm's culture and structure. Thus, nonfinancial incentives can serve a variety of organizational purposes, far beyond simply motivating employees. Firms experiencing any of a variety of situations or problems may want to consider the use of nonfinancial incentives as a potential solution to their troubles.

Although it might be desirable to be able to offer a prescription nonfinancial incentive program depending on the type of problem a firm is encountering, the results of my research suggest that this is impossible. There seems to be little, if any, relationship between the type of program chosen and the type of problem reported. It could be that certain nonfinancial incentive programs are simply becoming standard components of the U.S. business environment today. Thus, this area is one which needs further study to discover if those programs with high perceived effectiveness actually indicate special merit or suitability to the particular industry or are simply the ones our society has chosen to endorse.

#### Limitations of Current Study

Several features of this study limit its broad applicability. One of the greatest limitations is the small overall sample size, and the even smaller sample within certain categories examined, such as the chemical industry. Participants in the study were also self-selected, creating a possible bias if only those who have had positive experiences with the programs chose to respond. Additionally, they are all members of the Greater Baton Rouge Society for Human Resource Management and thus were possibly more likely to work for companies with greater interest in the field. The study was also conducted locally, thus limiting its generalizability. In view of the current study's limitations and findings, and the dearth of existing research on nonfinancial incentive programs, additional research is needed to clarify their future use and

potential benefits. Until this is available, the choice of nonfinancial incentive programs must be left to intuition and consultation with knowledgeable peers.

Conclusion

While these findings offer only minimal guidance to current human resource management practitioners, they do offer some insight to possible areas for future research. An in-depth analysis of the effectiveness of these programs may help in sorting out the options and in allowing the best programs to gain still more support. Additionally, it could provide much needed guidance in helping human resource managers choose the programs that best suit their firm's needs. Other findings, such as the relationship between industry type and nonfinancial incentives used do offer some guidance in selecting programs. Finally, findings like the low use of quality circles and company-provided day care despite their high effectiveness ratings indicate that managers are overlooking some very good programs and challenge them to devote more consideration to these areas in the future.

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## APPENDIX A

Figure A1

SURVEY OF  
THE GREATER BATON ROUGE SOCIETY FOR HUMAN RESOURCE MANAGEMENT  
NON-FINANCIAL INCENTIVE PRACTICES

For many years now, Human Resource Professionals have used non-financial incentives to motivate employees and promote job satisfaction. This survey examines the frequency of use and perceived effectiveness of non-financial incentives as a function of industry, company size and competitive wage level.\* It also examines employer motivation to use these programs.

PLEASE take a few minutes to complete the following items. The completed survey can be returned to the LSU Department of Management in the enclosed self-addressed stamped envelope. Please return the survey NO LATER THAN NOVEMBER 15, 1993. Thank you.

- I. **Effectiveness of Non-financial Incentives:** in terms of employee response (eg. decreased absenteeism, increased satisfaction) Please evaluate the effectiveness of the programs your company uses based on the following scale. For example, if MBO had some positive effect in your company you would circle the "3" to the right of the statement. If your company does not use MBO, you would circle "NA".

	Significant Negative Effect	Some Negative Effect	Some Positive Effect	Significant Positive Effect	
<b>PARTICIPATION/EMPLOYEE EMPOWERMENT</b>					
1. MBO	1	2	3	4	NA
2. participative management	1	2	3	4	NA
3. suggestion programs	1	2	3	4	NA
4. quality circles	1	2	3	4	NA
5. other (specify) _____	1	2	3	4	NA
<b>PERSONAL/PROFESSIONAL GROWTH</b>					
1. job enrichment	1	2	3	4	NA
2. job enlargement	1	2	3	4	NA
3. technical skills training (eg. statistical quality control, MIS)	1	2	3	4	NA
4. professional and management development programs	1	2	3	4	NA
5. education program assistance	1	2	3	4	NA
6. other (specify) _____	1	2	3	4	NA
<b>ORGANIZATIONAL STRUCTURE, POLICIES AND PROCEDURES</b>					
1. job rotation	1	2	3	4	NA
2. career paths	1	2	3	4	NA
3. job posting/bidding systems	1	2	3	4	NA
4. flexitime	1	2	3	4	NA
5. job sharing	1	2	3	4	NA
6. modified work-week	1	2	3	4	NA
7. organizational due process (ombudsman, grievance procedure, employee advocacy program)	1	2	3	4	NA
8. other (specify) _____	1	2	3	4	NA
<b>MISCELLANEOUS</b>					
1. recognition programs	1	2	3	4	NA
2. company sponsored social events	1	2	3	4	NA
3. pleasant, comfortable work environment	1	2	3	4	NA
4. employee assistance programs	1	2	3	4	NA
5. cafeteria benefit plan	1	2	3	4	NA
6. company-provided day care	1	2	3	4	NA
7. other (specify) _____	1	2	3	4	NA

\*as reported in the recent GBR-SHRM salary survey.



## Figure A1 (reverse)

II. **Basis for assessing effectiveness** (you may circle more than one response)

- a) personal observation  
 b) "hard" measures (eg. decrease in turnover/absenteeism, increase in productivity)  
 c) employee feedback  
 d) other (explain) \_\_\_\_\_

III. **Reason for Implementing Non-financial Incentive Program** (you may circle more than one response)

- a) financial constraints - incentives to supplement or substitute for pay increase because of the inability to reward financially  
 b) competitors implemented similar program  
 c) company decision-maker learned of potential value  
 d) decrease pro-union sentiment and motivation to unionize  
 e) increase company loyalty and positive sentiment toward firm  
 f) other (specify) \_\_\_\_\_

IV. **General Information** (please circle your response)

Type of business or industry:

Chemical Financial Health Manufacturing Public Other (specify) \_\_\_\_\_

Number of Employees:

Under 100 100 - 299 300 - 599 600 - 899 900 - 1,199 1,200 and over

**OPTIONAL**

Name	Company	Phone
Would you be willing to be called for additional information?	Yes	No
Additional Comments:		

Figure A2

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September 30, 1993

Dear Human Resource Professional:

My name is Vanessa Landreneau and I am a senior in Human Resource Management at LSU. As part of my Upper-Division Honors requirement, I am writing a senior thesis on the use and effectiveness of non-financial incentive programs.

Mr. Hoffman has graciously agreed to let me enclose my thesis survey in your monthly mail-out for distribution. Please take a few minutes to complete and return it.

I will provide you with a summary of my study when it is complete and will provide a copy of the full analysis to GBR-SHRM for reference purposes.

Thank you for your time.

Sincerely,

Vanessa Landreneau

## APPENDIX B

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**Excerpt From the  
1993 GBR-SHRM Compensation Survey \***

<u>Job Code and Title</u>	<u>All Orgs</u>	<u>Chemical</u>	<u>Financial</u>	<u>Health</u>	<u>Manu- facturing</u>	<u>Public</u>	<u>Other</u>
1001 Telephone Operator	\$1,272		80%	85%		104%	
1003 Receptionist	1,278		92%	84%		110%	101%
1005 Secretary I	1,359		97%	87%		103%	102%
<hr/>							
4504 Personnel Generalist I	1,986		105%			97%	102%
4506 Personnel Director(> 500 ees)	4,204		68%			99%	111%
6002 Registered Nurse	2,822	118%		103%		75%	
	<b>Average</b>	<b>131%</b>	<b>91%</b>	<b>88%</b>	<b>109%</b>	<b>98%</b>	<b>96%</b>

\*Average monthly pay (Unweighted Mean) by industry based on three or more reporting organizations in at least three industry categories expressed as a percentage of all organizations.

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Based on this table, I chose the industry categories of: Chemical, Financial, Health, Manufacturing, Public and Other. The full table included information on 34 jobs in the different industries. I felt this was justified since my sample was drawn from the same group (GBR-SHRM) as the group this study examined.

I chose my wage-level classifications using the wage as a percent of average monthly pay information given for each industry. The two highest paying industries, chemical and manufacturing were designated as high wage level employers. The health and financial industries were likewise classified as low wage employers. I felt that the close approximation of the public and other classifications to the average wage levels justified their classification as medium wage level employers.

## APPENDIX C

Table C1

**Frequency of Use and Perceived Effectiveness of Nonfinancial Incentives  
by Employers Citing Financial Constraints as Their Reason for  
Implementing the Programs (17)**

Nonfinancial Incentive Program	percent of employers using the program	perceived effectiveness
MBO	24%	3.00
participative management	53	3.33
suggestion programs	59	3.00
quality circles	41	3.43
job enrichment	53	3.22
job enlargement	53	2.78
technical skills training	82	3.21
professional and management development programs	94	3.31
education program assistance	71	3.50
job rotation	29	2.80
career paths	71	3.08
job posting/bidding systems	83	3.14
flexitime	59	3.20
job sharing	41	3.14
modified work week	47	3.25
organizational due process	47	3.00
recognition programs	71	3.25
company sponsored social events	82	3.29
pleasant, comfortable work environment	100	3.35
employee assistance program	71	3.17
cafeteria benefit plan	82	3.36
company-provided day care	24	3.50

Table C2

**Frequency of Use and Perceived Effectiveness of Nonfinancial Incentives  
by Employers Citing Their Competitors Implementation of a Similar Program  
as Their Reason for Implementing the Programs (11)**

Nonfinancial Incentive Program	percent of employers using the program	perceived effectiveness
MBO	27%	3.00
participative management	73	3.50
suggestion programs	64	3.00
quality circles	55	3.33
job enrichment	73	3.25
job enlargement	64	2.86
technical skills training	100	3.18
professional and management development programs	91	3.60
education program assistance	91	3.30
job rotation	64	2.86
career paths	73	3.38
job posting/bidding systems	82	3.11
flexitime	36	3.50
job sharing	18	3.00
modified work week	18	3.00
organizational due process	64	3.00
recognition programs	82	3.22
company sponsored social events	91	3.50
pleasant, comfortable work environment	100	3.64
employee assistance program	73	3.13
cafeteria benefit plan	73	3.25
company-provided day care	9	3.00

Table C3

**Frequency of Use and Perceived Effectiveness of Nonfinancial Incentives  
by Employers Citing a Company Decision-Maker Learning of Potential Value  
as Their Reason for Implementing the Programs (15)**

Nonfinancial Incentive Program	percent of employers using the program	perceived effectiveness
MBO	33%	3.00
participative management	67	3.30
suggestion programs	47	3.00
quality circles	33	3.40
job enrichment	60	3.44
job enlargement	40	2.83
technical skills training	87	3.46
professional and management development programs	93	3.57
education program assistance	80	3.33
job rotation	53	2.88
career paths	67	3.40
job posting/bidding systems	87	2.85
flexitime	47	3.29
job sharing	13	3.50
modified work week	47	3.14
organizational due process	73	3.09
recognition programs	80	3.33
company sponsored social events	87	3.54
pleasant, comfortable work environment	100	3.53
employee assistance program	67	3.20
cafeteria benefit plan	80	3.33
company-provided day care	0	N/A

Table C4

**Frequency of Use and Perceived Effectiveness of Nonfinancial Incentives  
by Employers Citing Decreasing Pro-Union Sentiment as Their Reason for  
Implementing the Programs (3)**

Nonfinancial Incentive Program	percent of employers using the program	perceived effectiveness
MBO	33%	3.00
participative management	33	3.00
suggestion programs	67	3.00
quality circles	67	4.00
job enrichment	67	3.00
job enlargement	67	3.00
technical skills training	100	3.33
professional and management development programs	100	3.67
education program assistance	100	3.00
job rotation	67	3.00
career paths	67	3.00
job posting/bidding systems	67	3.50
flexitime	33	3.00
job sharing	33	3.00
modified work week	33	3.00
organizational due process	33	3.00
recognition programs	100	3.00
company sponsored social events	100	3.00
pleasant, comfortable work environment	100	3.67
employee assistance program	100	3.00
cafeteria benefit plan	100	3.33
company-provided day care	33	4.00

Table C5

**Frequency of Use and Perceived Effectiveness of Nonfinancial Incentives  
by Employers Citing Increasing Company Loyalty as Their Reason for  
Implementing the Programs (25)**

Nonfinancial Incentive Program	percent of employers using the program	perceived effectiveness
MBO	32%	3.00
participative management	68	3.35
suggestion programs	68	3.12
quality circles	40	3.50
job enrichment	68	3.35
job enlargement	52	2.77
technical skills training	88	3.36
professional and management development programs	100	3.44
education program assistance	88	3.36
job rotation	44	3.09
career paths	68	3.06
job posting/bidding systems	80	3.25
flexitime	52	3.23
job sharing	28	3.14
modified work week	52	3.15
organizational due process	68	3.12
recognition programs	84	3.33
company sponsored social events	96	3.46
pleasant, comfortable work environment	100	3.48
employee assistance program	72	3.28
cafeteria benefit plan	76	3.42
company-provided day care	16	3.50