



Faculty of Cognitive Sciences and Human Development

**IMPACT OF INCENTIVE SYSTEM ON EMPLOYEES' MOTIVATION IN
SMALL AND MEDIUM ENTERPRISES (SMEs): A CASE STUDY IN
WHOLESALE TRADE SUB-SECTOR COMPANY**

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The project entitled ‘Impact of Incentive System on Employees’ Motivation in Small and Medium Enterprises (SMEs): A Case Study in Wholesale Trade Sub-Sector Company’ was prepared by Ng Mei Hao and submitted to the Faculty of Cognitive Sciences and Human Development in partial fulfillment of the requirements for a Bachelor of Science with Honours (Human Resources Development)

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ABSTRACT

Small and Medium Enterprises (SMEs) constantly have many obstacles in designing incentive systems as compared to large organizations or other Multinational Corporate (MNC). Particularly during this pandemic, feasible and attainable incentive systems which can motivate employees rather than demotivate them in a retrenchment mode must be devised. This research aims to study the impact of the incentive system on employee's motivation in Redquay Sdn Bhd before and during this pandemic. Specifically, it investigates the characteristics of the previous and the current incentive system that Redquay's employees seem as motivating. In this context, incentive system is defined as a system implemented by a company/organization to reward their employee's performance and dedication, while retaining their motivation.

This research employs the qualitative methodology using semi-structured interviews as the main data collection tool. The study revealed that the incentive system with characteristics of specific, clear, attractive, fair, and attainable is the system that employees look forward to and seem as motivating.

This suggests that the company should revisit and revise back the incentives policies, as well as clearly clarify incentives implemented in the company with details about terms and conditions (T&C) of the incentives in writing. As a result, in motivating employees, adopt any or all of the employees mentioned incentive system characteristics. This will surely have an impact on their attitudes toward work and enhance productivity.

Keywords: Small and Medium Enterprises (SMEs), incentive system, characteristics, motivation

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter consists of background of study, problem statement, conceptual framework, research questions, research objectives, significance of study, definition of terms, limitation of study and chapter summary.

1.1 Background of Study

When asked about the greatest challenges faced by small and medium enterprises (SMEs) often related to human resource concerns (Heneman et al., 2000; McCann et al., 2001). More explicitly, compensation issues are frequently perceived as a critical concern. As a competitive pressure board, organizations are compelled to ponder strategies to motivate employees. By motivating employees, it can boost up their productivity and efficiency of work. Innovation compensation strategies such as incentive systems are mostly invested in an effort to align individual's motivation. An incentive is a motivating influence that is devised to drive behavior and motivate employees to produce quality work (Ganta, 2014).

Stolovich's research (2010) mentioned that companies in the U.S spend \$100 billion a year on incentive program, but many commercial business people still doubt their efficacy. However, a ground-breaking study certifies that incentive programs can raise overall performance through anywhere from 25 percent to 44 percent, but only if carried out in ways that tackle all troubles associated with overall performance and human motivation (Stolovich, 2010). In 2000, the Incentive Federation discovered that about \$27 billion a year on commodity and travel incentives are spent by North American organizations.

Everyone needs to be valued, loved, and recognized as a human being. This is the same as in workplaces. Anne M. Mulcahy, one of America's Best Leaders that was selected by the U.S. News & World Report. She had given a remark at LifeCare(R) Inc.'s Life Event Management Conference in 2003. During the conference, Mulcahy (2003) stated that:

“Employees who believe that management is concerned about them as a whole person – not just an employee – are more productive, more satisfied, more fulfilled. Satisfied employees mean satisfied customers, which leads to profitability.”

In fact, organizations often overlook the importance of motivating employees. Malindo Airways (Malindo Air), for example, recently had downsized its operations and reduced its workforce. Thousands of its staff had been terminated without notifying. According to SAYS (2020), Malaysia's social news company, one staff who is among those retrenched told that Malindo Airways is not paying the severance pay, which they are supposed to get a three-month salary package as part of their severance pay. The action done by Malindo Airways had disappointed their staff (Malaysiakini, 2020). Meanwhile, those retrenched staff are being demotivated as even such a big organization like Malindo also cannot comply with the welfare of employees after retrenchment.

Therefore, feasible and attainable incentive systems have to be developed during this pandemic which can motivate employees instead of demotivating them in a way of retrenchment.

1.2 Problem Statement

A person who feels appreciated will always do more than what is expected. Question to ponder, how can an employer express their appreciation to the employee? Gurusamy and Priyadharshini (2019) mentioned that the proper approach of appreciating employees was through incentives. Research done by Almaghrabi et al. (2020) regarding the healthcare workers' experiences in dealing with the Coronavirus (Covid-19) pandemic, they found out around 89.3 percent of the respondents demonstrated a desire for incentives in order to enhance their willingness to report to work.

Unable to deny the fact that the incentive system is the most practical method to appreciate an employee's hard work. Compared to big organizations or other Multinational Corporate (MNC), the Small and Medium Enterprises (SMEs) always encounter many challenges in developing incentive systems due to the corporate size and fund issue. The issue is getting more and more challenging especially during this pandemic period. How SMEs can manage to sustain the business and at the same time ensure the employee's monetary welfare?

In order to combat the outbreak of Covid-19, working culture in Malaysia is shift to Work From Home (WFH) based gradually nowadays. According to Barshay, Karp and McLoughlin (2020), compensation programs such as incentive systems should have adequate adjustments based on the situation now. Companies may encounter the risks of improper incentivizing and compensating employees during this pandemic. While each and every one is still adapting to the new society norms, the new working culture and environment resulting in difficulties for organizations, especially SME to evaluate their employee's performance.

Research showed that insufficient and inefficient administration of human resource management (HRM) in SMEs has led in low productivity, demotivating and high turnover rates which is one of the major causes of SMEs being unable to compete with large organizations (Ogunyomia & Bruning, 2016; Knezović, Bušatlić, & Ridić, 2020). As a result, how SMEs can motivate and retain their employees to adapt to this new change during this pandemic?

1.2.1 Research Framework

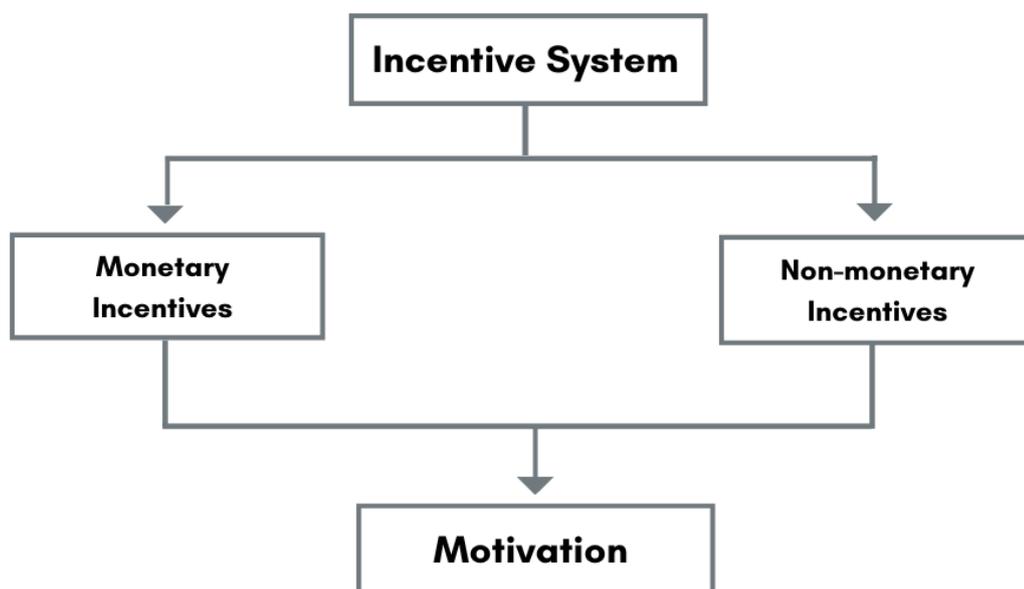


Figure 1 Research Framework

Adopted from Ogwueleka and Maritz (2013)

1.3 Research Questions

The specific question in this research are:

1. What is the previous incentive system implemented by the company?
2. What incentive system is implemented by the company during the Covid-19 pandemic?
3. What are the characteristics of the previous incentive system that seem as motivating?
4. What are the characteristics of the current incentive system that seem as motivating?

1.4 Research Objectives

1.4.1 General Objective

The main objective of this study is to study the impact of the incentive system on employee's motivation in Redquay Sdn Bhd before and during this pandemic.

1.4.2 Specific Objectives

Several specific objectives are identified in this study and are as follows:

1. To study the previous incentive system implemented by the company.
2. To study the incentive system implemented by the company during the Covid-19 pandemic.
3. To investigate the characteristics of the previous incentive system that seem as motivating.
4. To investigate the characteristics of the current incentive system that seem as motivating.

1.5 Significance of Study

First and foremost, the significance of this study is that it is able to create new insights for Small and Medium Enterprises (SMEs) to motivate employees during this pandemic. The findings of the research will redound to the benefit of SMEs considering the importance of incentive systems in motivating employees in particular during this pandemic period. This study devotes the insight of SMEs on managing sustainability incentive systems and at the same time motivates their employees.

Next, this study is significant in order to find out how SMEs organizations motivate employees by implementing an incentive system and at the same time manage to sustain the business. This research is beneficial to SMEs organizations to develop a feasible and suitable incentive system in order to effectively motivate employees during this pandemic period. Also, how to retain their employees and boost up their productivity at this time. Hence, better service which leads to organization profits would be provided by employees as much as they can.

However, HR practitioners might refer to this study to help them review the current incentive systems and policies in the organization to sustain those incentives in order to discover whether counterproductive incentives exist.

1.6 Definition of Terms

Both conceptual and operational definitions for significant terms used in this research are defined in this section.

1.6.1 Small and Medium Enterprises (SMEs)

According to SME Corporation Malaysia (2013), the definition of SMEs has been redefined and approved by the National SME Development Council. For the manufacturing sectors, SMEs are classified as companies with revenue turnover of not more than RM 50 million or employment not more than 200 workers. However, the threshold was also increased for services and other industries, as companies with a revenue turnover of not more than RM20 million or employment not more than 75 employees.

1.6.2 Motivation

According to Guay et al (2010), motivation was mentioned as “the reasons underlying behavior”. However, motivation is broadly defined as “the attribute that moves us to do or not to do something” (Broussard & Garrison, 2004, p.106). In this study, motivation refers to an act or a process that gives a person a reason to do something in a particular way, or an explanation for the repeated behaviors, needs, and desires.

1.6.3 Monetary incentives

Monetary incentives are rewards or appreciations as in financial form given to employees who surpass predefined standards of the level of production (Dessler, 2014). Bonuses, annual increment, sharing profits and travel allowances are the examples of monetary incentives. In this study, monetary incentives refer to a form of direct compensation in terms of cash.

1.6.4 Non-monetary incentives

In the light of Chan (2015), non-monetary incentives are a kind of compensation given to employees to motivate them which is unrelated to any financial compensation. Non-monetary incentives consist of recognition, flexible working hours, and promotion. In this study, non-monetary incentives refer to related rewards for outstanding job performance in non-cash form.

1.7 Limitations of Study

This study has several limitations that need to be considered when interpreting the findings. The primary limitation is the perceptions of the employees. It is worth noting that an idiosyncratic social environment and cultural background may affect the values and beliefs of a person. Hence, everyone's perceptions might be different which will affect the result of this study.

Moreover, there is a limitation about scope of discussions on this study. The scope of discussions that are discussed by the researcher may not be professional as compared to the works of experienced scholars. As the researcher lacks experience in conducting and producing academic research, the scope and depth of discussions in this study may not be interpreted comprehensively as compared with experienced scholars. However, the researcher always

refers to professionals for advice in order to maintain the standard and quality of the study.

Apart from that, one of other limitations is that this research may only be specific to SMEs organizations and may not be recapitulated to big organizations. But the outcomes of this research can be a guideline for them to reanalyze and regain incentive systems and policies in a better functional status.

1.8 Summary

In this chapter, the researcher explained the background of research study and identified the problems acquired. The next chapter is literature review in which it will be discussed deeply about this research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter incorporates further discussion about the main aim of research and reviews the references from the past research journal articles. Next, the researcher looks further into the theoretical part and uses motivation theory to justify the impact of the incentive system with support of secondary sources.

2.1 Incentive System in SMEs

Each employee would provide his or her full performance and dedication when he or she feels or trusts that their efforts will be rewarded by organizations. Apart from that, factors such as wage levels, training and development opportunities, job security, working culture and environment could also influence employees' motivation. Although, among all these factors that can influence the performance of employees, the motivation that comes with rewards is the most critical and most influential one (Naqbi, Yusof & Ismail, 2019).

According to Sandilyan et al. (2012), using incentives as reward will help to attract more attention from individuals because it can fulfil the employee's confidence and recognition needs. Practically, organizations are using annual increments, bonuses, promotions, or other forms of incentives for their employees to foster a prominent level of performance. Reward is a stronger motivator for employees, and it is quite important to value employees who have a prominent level of performance to sustain their performance in the future. Therefore, to ensure that employees are still motivated, organizations must deliberately establish an incentive system before reviewing the performance of employees and awarding them.

Incentive schemes have historically been used at higher levels of companies, but several types of initiatives have expanded over the last decades with the goal of increasing motivation among employees. Singh et al. (2017, p 75) said that, in SMEs, HRM should not be dismissed as strategic management that works only for large firms. However, there is value in further exploring the relationship between this aspect of employee management and SMEs efficiency.

In line with Ogwueleka and Maritz (2013), he suggested that incentive systems can be constructed through monetary incentive schemes, non-monetary incentive schemes or combination of both schemes. The purpose of constructing this incentive system is to obtain satisfaction among individuals, groups, or organizations to motivate them positively. Employee motivation is a tricky trade that needs a good understanding of motivational concepts and principles to make an effective use of it. Every employee is different, behaves in many ways and is also motivated by different attributes. Thus, the implementation of efficient motivational drivers could well motivate the behavior of employees to perform well in the workplace.

To increase efficiency and raise profitability, a successful incentive system is a vital way for small companies to empower their workers. It is part of human nature to respond to rewards, and workers like and deserve to be rewarded for their demanding work. Saratha (2020) said that the incentive system plays a key role in managing talent workers for SMEs. Employees' incentive schemes are seen as powerful instruments for aligning the needs of employees and company.

Although all incentive systems try to enhance the achievements of employees, various incentive systems may emphasize various specific purposes: recruitment (encouraging talented individuals to work for the company); motivation and retention (refraining from talented individuals leaving the company); results (encouraging talented individuals give contribution to the company). In addition, Zotkina et al. (2017) had done a case study of how to implement an incentive system on an example of sectoral business. Through the case study, they found

that the incentive system acted as significant tools that influence employees' motivation as the most of the respondents confronted that most sectoral enterprises did not propose a rational incentive system to motivate them.

As the crisis of Covid-19 escalates and the resulting market volatility, have subverted the compensation packages (incentive systems) of many organizations, no exception for SMEs. In New York, a survey conducted by Compensation Advisory Partners, Equity Methods and Board Prospects (2020) showed that more than 75% of companies may consider having adjustments of incentive systems due to Covid-19.

Wuen et.al (2020) showed that incentive programs should be well adopted in SMEs to monitor employee efficiency especially during the pandemic. The primary goal of compensation and incentive schemes is to retain and motivate employees. Based on Aleem and Rahman's (2020) research on Pakistani SMEs, discovered a strong positive association between the HR practices employed such as performance-based compensation systems and the expected performance of SMEs. According to the findings, it could be an efficient way to motivate and fulfill employees, who would then provide a greater contribution to organizational performance.

Hence, to strengthen the competitive advantages during this pandemic, SMEs must use a feasible incentive system to further improve employee engagement, preserve loyalty, achieve their strategic goals, and encourage competitiveness.

2.2 Monetary Incentives

Incentives can come in many forms, either monetary or non-monetary. Monetary incentive is commonly used especially at higher organizational levels. Three types of monetary incentives are usually adopted: salary increments, it is partly relevant to an increase of living cost and given for enhanced performance of the employee; short-term incentives like bonuses, it is a performance-based incentive according to the employee's performance yearly; long-term incentives like stock options, its purpose is to keep talents and encourage them to become one of the company partners.

Monetary incentives is a form of direct compensation that is beyond basic salary. The common examples of monetary incentives are bonuses, annual increments, profit sharings, stock options, commissions etc. People believe that their quality of life is dependent on money and these people respond well to monetary incentives (Jakovljevic, Zupan & Coleman, 2018). The nature of incentives that provide pay based on job performance would improve the motivation of employees in their efforts to achieve the stated goals and objectives.

According to Long and Shields (2010), they explained that monetary incentives can be a formidable employee performance motivator, helping to retain and attract talented employees. This is due to monetary incentives aiding them to meet their basic living needs such as food, shelter, and cost of living expenses. Sometimes, it also can achieve their higher level of needs — psychological needs, which are belongings and love needs as well as esteem needs.

Lee's (2015) research shown that monetary incentives have a major impact on the efficiency of hospital personnel, which is the result of increasing motivation based on the monetary incentives offered. The research is almost similar to the purpose of this motivational study. Therefore, monetary incentives may be considered as one of the motivators to encourage employees to perform well in jobs which leads to the accomplishment of company goals.

Based on a case study conducted by Al-Belushi and Khan (2017) in Oman, 76.1 percent of the respondents believed monetary incentives to motivate them to work hard. This case study is aligned with Berger and Berger (2015). They mentioned that employees tend to have monetary incentives in exchange for their achievements in their job.

According to research done by Novianty and Evita (2018), they gave a conclusion that monetary incentive from the viewpoint of the financial perspective, financial satisfaction, value of loss and self-selection is a sort of finance or rewards in the form provided to employees to motivate employees to do their job to enhance the need for accomplishment, the need for work relations and the need for willpower.

Moreover, the provision of monetary incentive is the basis on which employees can enhance their job efficiency, increase the motivation of employees to achieve the objectives and goals, improve their quality of life and create a work motivation that can be optimally achieved.

Hence, it can be inferred that the monetary incentive is the outcome of reward obtained by employees in the form of financial contributions and job output that meets the average level of other employees. Monetary incentive is done as an indicator of the company's investment to its employees. Besides, it aids to inspire workers to perform the job, which contributes to the accomplishment of the objectives of the organization.

In addition, based on the findings of empirical study Sittenthaler and Mohnen (2020), gender differences in the efficacy of monetary and non-monetary incentives are likely. On the findings by Sittenthaler and Mohnen (2020), men outpaced women in monetary incentives results by 12.86 percent. They concluded that men perform best in monetary incentives as reward, while women perform best in non-monetary incentives rather than monetary incentives or combination. Women may feel more at ease and perform better in a competition with non-monetary rewards at stake (Sittenthaler & Mohnen, 2020; Azmat et al., 2016; Shurchkov,

2012). Men, on the other hand, pursue competition and, as a result, perform better when monetary rewards are at stake, as they are more persistent in seeking them (Masclot et al., 2015; Sittenthaler & Mohnen, 2020).

2.3 Non-monetary Incentives

Non-monetary incentives are intended to recognize a specific accomplishment or completion of something that improves job performance of an employee. The common examples of non-monetary incentives are recognition, promotion, flexible working arrangements, or any form of rewards that is in cashless form.

Monetary incentives do not necessarily contribute to desirable results. Hence, non-monetary incentives could be a good complement compared to monetary incentives during this time (Magnusson & Nyrenius, 2011). In addition, non-monetary incentives are usually cost less, conveniently administered and more intimate, and can be used to consistently reward employees for exemplary performances.

Non-monetary incentives are also highly regarded by employees and can even offer greater motivation. Lai's (2016) research stated that, by recognizing employees for their efforts, contributions, good work attitudes or prominent performance, it could motivate them in the workplace as they deserve to be appreciated. Recognition can be in any form, for instance, writing a simple thank you note, a smile or a warm handshake. All these gestures can convey the management team's concern about them.

Nowadays, non-monetary incentives, such as praise and recognition, are known as motivational factors for employees and are often used by organizations to achieve employee performance. Schlechter et al (2015) found that the initial motivation and engagement of employees could have increased with a pay increase or bonus payment, but the results were shorter than the motivational effects of non-financial incentives. Besides that, non-monetary