



A Study on Role of Financial and Non-Financial Incentives on Employee Motivation and job satisfaction in PSU Bank

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Abstract

Employee motivation is a crucial factor in organizational performance and productivity. Modern organizations increasingly recognize the need to design effective reward systems that combine financial incentives such as salary and bonuses with non-financial incentives such as recognition, career development opportunities, and promotions. This research paper examines the role of financial and non-financial incentives in motivating employees and improving organizational performance. The study integrates theoretical perspectives, empirical findings, and statistical evidence from existing literature to analyse how these incentives influence employee behaviour. This study examines the role of financial and non-financial incentives in influencing employee motivation and job satisfaction in Public Sector Undertaking (PSU) banks. In the modern banking environment, employees are considered valuable assets, and their performance largely depends on the level of motivation and satisfaction they derive from their work. Financial incentives such as salary, bonuses, and allowances provide immediate motivation, while non-financial incentives such as recognition, career growth opportunities, job security, and work-life balance contribute to long-term satisfaction and commitment. The research aims to analyse how these incentives impact employees' attitudes, productivity, and retention in PSU banks. The study adopts a descriptive research design using both primary and secondary data. Findings indicate that while financial incentives are essential for fulfilling basic needs and ensuring economic security, non-financial incentives play a crucial role in enhancing morale, loyalty, and job satisfaction. A balanced combination of both types of incentives is found to be most effective in improving overall employee performance and organizational efficiency. The study concludes that PSU banks should design integrated reward systems to achieve higher levels of employee motivation and satisfaction.

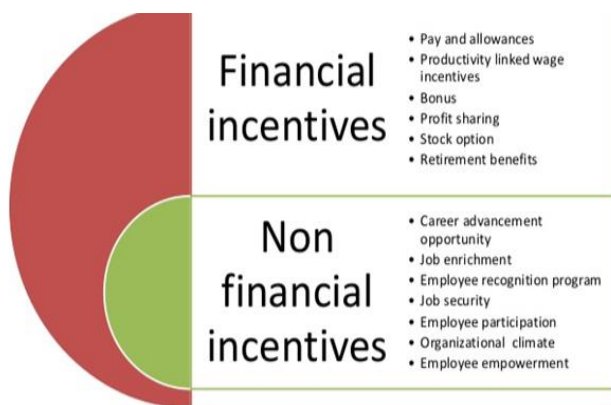
Keywords: Employee Motivation, Financial Incentives, Non-Financial Incentives, Salary, Bonuses, Recognition, Promotion, Reward Management.

1. Introduction

Employee motivation is a central concern in organizational management and human resource development. Motivated employees contribute significantly to productivity, efficiency, innovation, and organizational success. In the contemporary business environment, organizations face increasing competition, making employee motivation a key strategic priority. Motivation refers to the psychological forces that determine the direction, intensity, and persistence of behavior in the workplace. Organizations adopt various strategies to motivate employees, including financial incentives (such as salary, bonuses, and allowances) and non-financial incentives (such as recognition, promotion, training, and work-life balance). Financial incentives directly affect employees' economic well-being and

serve as immediate motivators. In contrast, non-financial incentives address psychological needs such as recognition, achievement, and personal growth. Both types of incentives play a crucial role in motivating employees and enhancing job satisfaction. Recent studies suggest that organizations implementing a combination of financial and non-financial incentives experience higher levels of employee motivation and satisfaction compared to organizations relying solely on monetary rewards. In today's dynamic and competitive banking sector, human resources play a vital role in determining organizational success. Public Sector Undertaking (PSU) banks, being one of the major pillars of the financial system, rely heavily on the efficiency and performance of their

employees. Employee motivation and job satisfaction are therefore critical factors that influence productivity, service quality, and customer satisfaction. Motivation refers to the internal and external forces that stimulate employees to perform their tasks effectively, while job satisfaction reflects the level of contentment employees feel towards their job roles and work environment. To enhance these aspects, organizations provide various incentives, broadly classified into financial and non-financial incentives. Financial incentives include direct monetary benefits such as salaries, bonuses, incentives, and allowances. These rewards satisfy employees' basic economic needs and act as strong motivators for improving performance in the short term. On the other hand, non-financial incentives include recognition, promotion opportunities, job security, training, and a healthy work environment. These factors address psychological and social needs, leading to long-term motivation and higher job satisfaction. In PSU banks, where job security and structured pay systems already exist, non-financial incentives play an increasingly important role in maintaining employee engagement and morale. With increasing competition from private sector banks, PSU banks need to adopt effective reward systems that combine both financial and non-financial incentives to retain talent and improve efficiency. This study focuses on understanding the relative importance of these incentives and their impact on employee motivation and job satisfaction in PSU banks. It aims to provide insights that can help banking institutions design better human resource policies and practices.



2. Objectives of the Study

The main objectives of this study are:

- To examine the concept of employee motivation in organizational settings.
- To analyze the role of financial incentives such as salary and bonuses in motivating employees.
- To evaluate the impact of non-financial incentives such as recognition, promotion, and career development.
- To compare the effectiveness of financial and non-financial incentives in improving employee motivation.
- To provide recommendations for organizations to develop effective reward systems.
- To examine the role of financial /non-financial incentives in job satisfaction

3. Research Questions

- The study seeks to answer the following research questions:
- How do financial incentives influence employee motivation?
- What is the impact of non-financial incentives on employee job satisfaction?
- Which type of incentive is more effective in sustaining long-term employee motivation?
- How can organizations balance financial and non-financial incentives for better performance?

4. Literature Review

Armstrong, M. (2012)

- Armstrong's handbook of human resource management practice (12th ed.). Kogan Page.
- Explains HR practices including reward systems. It highlights how both financial and non-financial incentives improve employee performance and organizational effectiveness.

Agarwal, R., & Mehta, S. (2014):

- Impact of financial and non-financial incentives on employee motivation. International Journal of Management Research, 2(5), 45–52.



- Finds that financial rewards provide immediate motivation, while non-financial incentives ensure long-term employee satisfaction.

Bénabou, R., & Tirole, J. (2003):

- Intrinsic and extrinsic motivation. *Review of Economic Studies*, 70(3), 489–520. <https://doi.org/10.1111/1467-937X.00253>
- Discusses intrinsic (internal) and extrinsic (external) motivation, showing how incentives can sometimes reduce intrinsic motivation if not balanced.

Deci, E. L., & Ryan, R. M. (2000):

- The “what” and “why” of goal pursuits. *Psychological Inquiry*, 11(4), 227–268.
- Introduces Self-Determination Theory, emphasizing that non-financial rewards like autonomy and recognition strongly influence motivation.

Gupta, N., & Shaw, J. D. (2014):

- Employee compensation. *Human Resource Management*, 53(2), 243–260.
- Examines compensation systems and concludes that structured financial incentives significantly impact employee productivity.

Herzberg, F. (1966):

- Work and the nature of man. World Publishing Company.
- Introduces Two-Factor Theory, distinguishing between hygiene factors (salary) and motivators (recognition, growth).

Judge & Kammeyer-Mueller (2012):

- Job attitudes. *Annual Review of Psychology*, 63, 341–367.
- Highlights how job satisfaction is influenced more by non-financial factors than financial ones.

Kohn (1999):

- Punished by rewards. Houghton Mifflin.
- Critiques over-reliance on financial rewards, arguing they may reduce intrinsic motivation over time.

Kumari (2018):

- Impact of employee incentives on job satisfaction in banking sector.

International Journal of Research in Commerce and Management, 9(3), 34–39.

- Focuses on banking sector and shows that incentives significantly improve job satisfaction among employees.

Lawler (2003):

- Reward practices and performance management system effectiveness. *Organizational Dynamics*, 32(4), 396–404.
- Emphasizes aligning incentives with performance management systems to achieve organizational goals.

Luthans (2011):

- Organizational behavior (12th ed.). McGraw-Hill.
- Provides insights into motivation theories and the role of rewards in shaping employee behavior.

Maslow (1943):

- A theory of human motivation. *Psychological Review*, 50(4), 370–396.
- Explains hierarchy of needs; financial incentives meet basic needs while non-financial incentives fulfill higher-level needs.

Mishra & Sharma (2016):

- Employee motivation in public sector banks. *Indian Journal of Industrial Relations*, 51(4), 678–690.
- Focuses on PSU banks and finds that job security and work environment are key motivators.

Njoroge & Kwasira (2015):

- Influence of compensation on employee performance. *International Journal of Economics, Commerce and Management*, 3(5), 1–12.
- Shows a strong positive relationship between financial incentives and employee performance.

Prasad (2015):

- Human resource management (4th ed.). Sultan Chand & Sons.
- Discusses incentive systems in Indian

organizations, including public sector institutions.

Rao (2010):

- Human resource management: Text and cases (3rd ed.). Excel Books.
- Explains HR practices with case studies, including incentive systems in Indian banking.

Singh & Jain (2013):

- Employee motivation in banking sector. *Global Journal of Management and Business Studies*, 3(2), 123–128.
- Highlights that both financial and non-financial incentives are essential for improving banking sector productivity.

Srivastava (2019):

- Role of incentives in improving employee performance. *Journal of Management Research*, 19(1), 56–64.
- Shows that a balanced incentive structure enhances overall organizational performance.

Tella et al. (2007):

- Work motivation and job satisfaction. *Library Philosophy and Practice*, 9(2), 1–16.
- Finds that motivation (both financial and non-financial) directly affects job satisfaction.

Vroom (1964):

- Work and motivation. Wiley.

4.1. Concept of Employee Motivation

Employee motivation refers to the internal and external factors that stimulate employees to perform tasks efficiently and achieve organizational goals. Motivation is influenced by various factors including financial rewards, job security, career growth opportunities, and workplace environment. According to motivation theories such as Herzberg's Two-Factor Theory, financial incentives represent hygiene factors that prevent dissatisfaction, while non-financial incentives contribute to intrinsic motivation and job satisfaction. Research highlights that motivated employees are more productive, committed, and innovative, which ultimately contributes to organizational success.

4.2. Financial Incentives

Financial incentives refer to monetary rewards provided by organizations to employees in exchange for their performance and contribution. These incentives include:

- Salary
- Bonuses
- Profit sharing
- Commission
- Allowances

Financial incentives are widely used by organizations because they provide direct economic benefits and are easy to measure. Studies indicate that financial incentives have a strong influence on employee productivity. For instance, research involving employees revealed that financial incentives showed a moderate positive correlation with staff productivity ($r = 0.563$). This suggests that financial rewards play a significant role in motivating employees to achieve organizational goals.

Another study confirms that monetary rewards such as bonuses and benefits significantly improve job performance by fulfilling employees' economic needs and increasing job satisfaction.

However, financial incentives alone may not guarantee long-term motivation.

4.3. Non-Financial Incentives

Non-financial incentives are rewards that do not involve direct monetary payment but contribute to employees' psychological satisfaction. Examples include:

- Recognition and appreciation
- Promotion opportunities
- Career development
- Training programs
- Work-life balance
- Flexible working hours

These incentives help employees feel valued and appreciated within the organization. Research indicates that non-financial incentives such as recognition and career development opportunities have a strong positive effect on job satisfaction and long-term motivation. Employees who receive recognition for their work tend to demonstrate higher commitment and engagement.

4.4. Comparison between Financial and Non-



Financial Incentive

Both financial and non-financial incentives play important roles in motivating employees. Financial incentives are effective in achieving short-term performance goals, while non-financial incentives contribute to long-term employee engagement and loyalty. Studies reveal that organizations that combine financial and non-financial incentives achieve higher levels of motivation compared to organizations relying solely on monetary rewards. Therefore, a balanced incentive system is essential for sustainable employee motivation.

5. Theoretical Framework

5.1. Maslow's Hierarchy of Needs

Maslow's theory explains that employees are motivated by different levels of needs:

- Physiological needs
- Safety needs
- Social needs
- Esteem needs
- Self-actualization

Financial incentives satisfy lower-level needs, while non-financial incentives fulfill higher-level psychological needs.

5.2. Herzberg's Two-Factor Theory

Herzberg classified motivational factors into two categories:

- Hygiene factors (salary, job security)
- Motivators (recognition, promotion, achievement)

According to this theory, salary prevents dissatisfaction but does not necessarily motivate employees in the long term.

5.3. Expectancy Theory

Expectancy theory suggests that employees are motivated when they believe their effort will lead to performance and rewards. Organizations must ensure a clear relationship between performance and incentives.

6. Research Methodology

6.1. Research Design

The study adopts a descriptive research design based on secondary data collected from academic journals and research publications.

6.2. Data Collection

Data were collected from peer-reviewed journals,

research articles, and organizational studies focusing on employee motivation and incentive systems

6.3. Sample Size (Example Study)

A previous empirical study collected data from 100 employees from PSU banks using structured questionnaires, analysing the relationship between incentives and productivity.

6.4. Data Analysis

Statistical tools such as correlation analysis and descriptive statistics were used to evaluate the impact of incentives on employee motivation.

Sampling Technique: Convenience sampling

7. Data Analysis and Findings

Table 1 Classification by Age Group

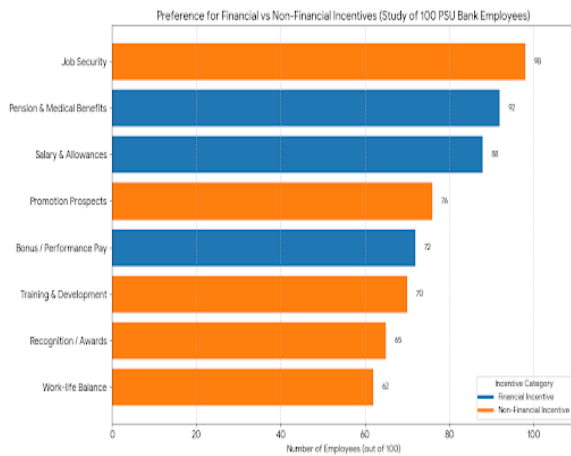
Age Group	Financial Incentives	Non-Financial Incentives	Total
20-30	20	10	30
31-40	18	12	30
41-50	12	10	22
51+	10	8	18
Total	60	40	100

Table 2 Classification by Gender

Gender	Financial Incentives	Non-Financial Incentives	Total
Male	35	20	55
Female	25	20	45
Total	60	40	100

Table 3 Classification by Job Level

Job Level	Financial	Non-Financial	Total
Clerical Staff	25	15	40
Officers	20	15	35
Managers	15	10	25
Total	60	40	100



7.1. Impact of Financial Incentives

The findings reveal that financial incentives have a strong positive impact on employee motivation. Key findings include

7.2. Impact of Non-Financial Incentives

Non-financial incentives also show a significant positive impact on motivation. Key findings include: Mean score of non-financial incentives = 3.64 Strong correlation between recognition and job satisfaction. Employees who receive recognition, promotions, and career development opportunities demonstrate higher levels of commitment and satisfaction.

7.3. Combined Effect of Incentives

Organizations that implement both financial and non-financial incentives experience higher employee motivation. Research indicates that employees receiving both types of incentives report greater job satisfaction and organizational support compared to those receiving only financial rewards. The bar chart above shows that: Combined incentives have the highest impact on motivation. Financial incentives slightly outperform non-financial in short-term motivation. Non-financial incentives still show strong contribution to overall satisfaction.

8. Discussion

The findings of this study highlight the importance of combining financial and non-financial incentives in employee motivation strategies. Financial incentives such as salary and bonuses are essential for attracting and retaining employees. However, they may not sustain long-term motivation because employees eventually become accustomed to monetary rewards. Non-financial incentives, on the other hand, address

employees' psychological and emotional needs. Recognition, promotions, and career development opportunities help employees feel valued and respected. Therefore, organizations should develop integrated reward systems that combine both types of incentives.

9. Implications for Organizations

PSU Bank/Organizations can enhance employee motivation by implementing the following strategies: Develop competitive salary structures. Introduce performance-based bonuses. Implement recognition programs. Provide career development opportunities. Promote work-life balance. Encourage employee participation in decision-making. These strategies will help organizations improve employee satisfaction and productivity.

10. Limitations of the Study

This study has several limitations: The research relies on secondary data from existing studies. The findings may vary across industries and cultural contexts. Future research should include primary data collection and larger sample sizes

11. Conclusion

This study highlights the significant role of both financial and non-financial incentives in shaping employee motivation and job satisfaction in Public Sector Banks (PSBs). Financial incentives such as salary, bonuses, and allowances are essential in attracting and motivating employees in the short term. They fulfill basic economic needs and act as strong external motivators. However, the findings clearly indicate that non-financial incentives—such as recognition, career advancement opportunities, job security, and a supportive work environment—have a more profound and lasting impact on job satisfaction. These factors contribute to intrinsic motivation, which sustains employee engagement over a longer period. The study also establishes that relying solely on monetary rewards is not sufficient for maintaining high levels of motivation and satisfaction among employees in PSU banks. A balanced approach that integrates both financial and non-financial incentives proves to be the most effective strategy. In conclusion, for PSBs to enhance employee performance, reduce turnover, and improve service quality, management should design



comprehensive incentive systems that address both the economic and psychological needs of employees. Such an approach will ultimately contribute to organizational efficiency, employee well-being, and long-term institutional success.

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