



The impact of non-financial rewards on organizational attractiveness

Perera, K. E. P. Department of Human Resource Management, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka

 **Karunaratne,**

R. A. I. C. †

† ✉ ishankac@kln.ac.lk (Corresponding author)

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ABSTRACT

The main objective of this study was to examine the impact of nonfinancial rewards on organizational attractiveness. Drawing on the social exchange theory we develop and empirically test a model to explain the role of nonfinancial rewards, i.e. work-life balance, learning opportunities, and career advancement on organizational attractiveness. Following the quantitative research approach we collected data from 88 undergraduate students from 3 main universities in management in Sri Lanka. To test the model we developed one hypothesis. The results of simple linear regression suggested that nonfinancial rewards had statistically significant effect on generation Y candidates' organizational attractiveness. This study mainly contributes to enhancing our understanding of the social exchange theory.

Contribution/ Originality

Based on the social exchange theory this study addresses the impact of nonfinancial benefits on organizational attractiveness. This study contributes to enhancing our understanding of the social exchange theory. Moreover, a sample of this study based on generation Y undergraduates will add value to the literature on organizational attractiveness.

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1. INTRODUCTION

In this new era of knowledge management ‘talent’ remains an important source of gaining the competitive advantage. Thus organizations across the globe compete for acquiring the best, more specifically young, talent with relevant skills and knowledge (Beaverstock, 2018; Mandhanya and Shah, 2010; Rynes and Barber, 1990). Today the driving force of most organizations are generation Y employees (born between 1980 and 1997 now 22 to 39) which represents around one third of the entire population (Zemke *et al.*, 2000).

Thus attracting and retaining them may be more critical for the existence of the organizations. However, unlike people from the previous generations, i.e. people from generation X and baby boomers, people from generation Y have unique expectations and interest in their careers and lives (e.g. valuing leisure and freedom). For instance, a study by Bussin and van Rooy (2014) of a large financial institution in South Africa emphasized that there were generational differences in motivational factors and preferences in rewards. As another example, in a meta-analysis Konrad *et al.* (2000) found that job attributes were varied across generations. From these results we know that career expectations are different for people from different generations.

However, these researchers explained only how generation Y employees distinguished themselves from other generations. Moreover, most of the extant research focused on the job, not the attributes of the organizations which the potential applicants might be interested in (Konrad *et al.*, 2000). Most studies found a link between providing benefits to employees for better organizational outcomes such as work satisfaction (Breugh and Frye, 2007; Grover and Crooker, 1995), organizational commitment, and lower intentions to leave the organization (Grover and Crooker, 1995), and they have not explained well how the unique expectations of candidates from different generations influence organizational attractiveness.

In contrast, it is not a surprise that rewards are an important predictor of organizational attractiveness. Amundson (2007) emphasized that financial rewards could not influence employees to select an organization to work for. The traditional financial reward package is still important; nevertheless the importance and prioritization are changing. Most research has emphasized the importance of the financial package and employees are motivated by a reasonable financial package.

However, in the current world the trend has been changing and nonfinancial rewards (e.g. flexible work hours, opportunities for career advancement, and recognition) are becoming more important than financial rewards. Financial rewards can easily be replicated; hence organizations need to find new ways to differentiate themselves from rivals (WorldatWork, 2003). Thus nonfinancial rewards would be an important solution to differentiating organizations from rivals and attracting the best talent. However, empirical evidence which explains how nonfinancial rewards influence organizational attractiveness is limited. Hence the main purpose of this study is to examine the impact of other than financial rewards on attracting generation Y undergraduates.

This study presents several contributions to the literature. Firstly we contribute to human resources management literature by extending the knowledge of attracting candidates to organizations. As stated by Beechler and Woodward (2009), attracting the best talents is critical. Based on the social exchange theory (Blau, 1964) we will explain the role of nonfinancial benefits in attracting the best talent to organizations. Secondly we contribute to extending the literature by focusing on generation Y job candidates. As stated by prior researchers (e.g. Bussin and van Rooy, 2014), generation Y candidates have different career expectations.

As generation Y is the future of the corporate sector, attracting its members will decide the future existence of organizations. Most generation Y employees are not satisfied with their job due to lack of freedom, no interest, heavy workload, and dislike of working under someone. Graduates of baby boomers and generation X were highly motivated by the amount that they would be paid. Two

decades later generation Y candidates are motivated by other things such as flexible work hours, leisure, and freedom other than money. Graduates of baby boomers and generation X tend to have traditional and outdated knowledge compared to graduates and undergraduates from generation Y. This is the tech savviest generation in the work force.

Young graduates are equipped with new knowledge and could be developed to a state where the company could gain core competence from them. Without new knowledge and strategies business firms will cease to exist in a rapidly changing environment and to survive as a business organization attracting and retaining young talented undergraduates is vital. Thus this study contributes to the literature by empirically investigating the role of nonfinancial rewards on organizational attractiveness to generation Y candidates. Thirdly, our study is based on a sample of undergraduates from three leading management universities in Sri Lanka. Most of the aforementioned studies are based on different samples, i.e. general public. University undergraduates are a good source of filling potential vacancies in organizations as they are in the process of acquiring necessary knowledge and skills in order to serve an organization or in the world. By collecting data from a unique but important source of data we contribute to the literature on organizational attractiveness.

2. THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

2.1. Non-financial benefits and organizational attractiveness

The total rewards are “encompassing not only traditional, quantifiable elements like salary, variable pay and benefits, but also intangible non-cash elements such as scope to achieve and exercise responsibly, career opportunities, learning and development, the intrinsic motivation provided by the work itself, and the quality of working life provided by the organization” (Armstrong and Murlis, 2004). Although, in the past, most of the organizations, as well as employees give priority for financial rewards, the trend has been changing in line with social and economic advancement. Thus, nowadays, employees are valuing both financial and non-financial rewards, where non-financial benefits are becoming more appealing to employees. Non-financial rewards are in different nature.

Scholars have identified different types of non-financial rewards. For instance, in their study Rumpel and Medcof (2006) have identified 3 forms of non-financial rewards including flexible work hours, opportunities for career development, and opportunities for training and development, where these non-financial rewards blend with financial rewards to produce effective more effective rewarding system (Rumpel and Medcof, 2006). As another example, Pregolato (2010) study has identified benefits, work-life balance, performance and recognition, development and career opportunities as non-financial benefits.

In contrast, organizational attractiveness refers to “the potential benefits/rewards that a prospective employee sees in working for a specific organization” (Berthon *et al.*, 2005). In a recent study, Jiang and Iles (2011) refers organizational attractiveness as “a power that attracts applicants’ attention to employer branding and encourages existing employees to stay loyal to a company”. Organizational attractiveness is considered as a predictor of employer branding (Berthon *et al.*, 2005). Organizational attractiveness is a multi-dimensional construct and researchers (e.g., Robertson and Arachchige, 2013; Sivertzen *et al.*, 2013) tried to identify distinct dimensions of organizational attractiveness as an example Berthon *et al.* (2005) have developed multi-item scale to identify the components of employer attractiveness and they have identified five components of employer attractiveness, i.e. interest value, social value, economic value, development value and application value.

2.2. Non-financial benefits and organizational attractiveness

This study is based upon social exchange theory (Blau, 1964) where the theory is developed based on the norm of mutual contingent and mutually rewarding (Emerson, 1976). Blau (1964) has defined social exchange as “social exchange as here conceived is limited to actions that are contingent on rewarding reactions from others.” As theory stated resource will continue to flow from one party to

the other party only when there is a valued return (Emerson, 1976). In other words, exchange will happen only when both parties get the benefit from the transaction. Likewise, in our study, we believe that organizations can attract the best talents when organizations provide an attractive reward package, more specifically, non-financial rewards. In contrast, when organizations are failed to enough resources i.e. non-financial rewards, candidates will reciprocate by rejecting join with these organizations. In support, empirical evidence has shown that total rewards have a significant effect on employee attraction, retention and motivation (Rumpel and Medcof, 2006). Thus, we hypothesize,

Hypothesis 1: There is a significant impact of non-financial rewards on organizational attractiveness (alternative hypothesis).

In our conceptual model, we considered non-financial rewards as our independent variable, which contains work life balance, career advancement, and learning opportunities. The dependent variable of this study is organizational attractiveness. Our conceptual model showed in figure 1.

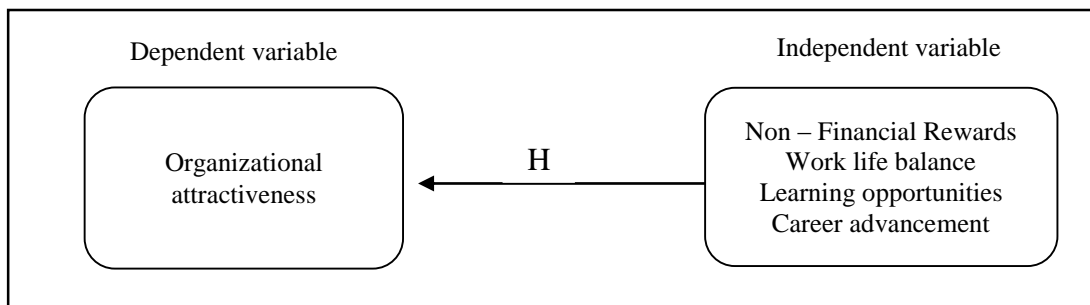


Figure 1: Conceptual framework

3. METHOD

3.1. Data collection procedure

To test our hypothesis we collected data from 88 management undergraduates (who are in the final year of their degree programme) from 3 leading universities in management studies in Sri Lanka, namely the University of Colombo, the University of Sri Jayewardenepura, and the University of Kelaniya. Compared to graduates/undergraduates from other study schemes, (e.g. art and science) there is high likelihood that management graduates will join the corporate sector. We also exclude the undergraduates of (e.g. computer and engineering) science, as most of them look for jobs overseas. Besides, as the focus of this study was to assess organizational attractiveness, we only consider potential job seekers. Thus our sample only comprises unemployed undergraduates who provide the ideal testing ground for our hypothesis.

To collect data we used an online survey. As we focused only on unemployed management undergraduates, we vetted out other undergraduates by asking a screening question. The participants were invited via e-mail and other social media such as Viber and WhatsApp. We sent survey invitations to fifty students of each university. We received only 88 surveys back and utilized 88 participants for subsequent analysis.

3.2. Sample

55% of the participants in this study were men. 38% of all respondents were undergraduate students at the University of Colombo, 34% from the University of Kelaniya, and 28% from the University of Sri Jayewardenepura. The majority of participants (30%) studied for a human resource management special degree, while 86% of participants had full or partial qualification from professional bodies such as the Institute of Chartered Accountants of Sri Lanka (ICASL) or the Chartered Institute of Marketing (CIM) in the United Kingdom.

3.3. Measures

3.3.1. Non-financial rewards

We measured non-financial rewards using 20 items scale (see Appendix) developed by Norreklit (2003). The sample items include “The opportunities offered to you by your company for learning and career development outside of your current job e.g., sabbaticals, coaching, mentoring, and leadership training”, and “your employer’s provision of work/life programs such as flexible work schedules”. The anchor points of the scale used to measure non-financial rewards ranged from 1, “strongly disagree” to 5, “strongly agree”. Cronbach’s Alpha for the composite scale was 0.895.

3.3.2. Organizational attractiveness

To measure organizational attractiveness, we use 9 items scale (see Appendix) developed by Highhouse *et al.* (2003). Sample items include “I’m very interested in pursuing my application with this company if offered one”, and “I would really like to work for this company”. The measures range from 1 “strongly disagree” to 5 “strongly agree”. Cronbach’s Alpha for the composite scale was 0.705.

4. ANALYSIS

4.1. Preliminary analysis

Before we tested our hypothesis we conducted confirmatory factor analyses (CFA) to validate the scales. We assessed the overall model fit with the comparative fit index (CFI), Tucker Lewis Index (TLI), the root mean square residual (RMSEA), and standardized root mean square (SRMR). According to Hu and Bentler (1999) a model fits reasonably well if: (1) SRMR values are close to 0.08 or lower; (2) RMSEA values are close to .06 or lower; and (3) CFI and TLI values are close to 0.95 or higher. Our theoretical model shows a reasonable fit for the data ($\chi^2(349) = 596.79$; $DF = 349$; $p = .000$; $CMIN/DF = 1.17$; $CFI = 0.91$; $TLI = 0.91$; $RMSEA = 0.05$; $SRMR = .07$). All items loaded on their respective factor significantly with loadings higher than 0.40. To decrease the potential of multicollinearity we standardized all variables (Field, 2013).

4.2. Hypotheses testing

The means, standard deviations, and inter-correlation among variables are reported in Table 1.

Table 1: Mean, standard deviation and correlation^a

	Variable	Mean	SD	1	2	3	4
1	Gender	1.45	0.50				
2	University	1.91	0.81	0.02			
3	Professional courses	2.11	1.43	0.22*	0.03		
4	Non-financial rewards	4.32	0.41	0.00	0.05	-0.21	
5	Organizational attractiveness	4.05	0.42	-0.04	0.04	-0.11	0.45**

* $p < 0.05$, ** $p < 0.01$

^a $n = 88$

To test the hypothesis, we ran simple linear regression using Statistical Package for Social Sciences (SPSS v 23). In Hypothesis 1, we proposed non-financial rewards have significant impact on organizational attractiveness. The results provide support for H1 ($\beta = 0.45$, $p < 0.00$, adjusted R square = 0.19), implying that non-financial is a significant predictor of young educated candidates’ attraction towards the organizations. These findings support previous findings by Terjesen *et al.* (2007).

5. DISCUSSION

Based on the social exchange theory (Blau, 1964) this study provides insights into the role of nonfinancial rewards in attracting generation Y candidates to organizations. The results from 88 university undergraduates in this study show that nonfinancial rewards have a significant impact on attracting generation Y candidates to organizations. Theoretical and practical implications are discussed in the subsequent sections.

5.1. Theoretical implications

The study presents several theoretical contributions. Firstly we contribute to the social exchange theory (Blau, 1964) by expanding the literature on rewards and organizational attractiveness. The social exchange theory is mainly used to explain the mutuality of economic and noneconomic social situations such as interactions of small groups. In this study we use the reciprocity norm to explain the relationship between nonfinancial rewards and organizational attractiveness, which explains that when organizations provide enough nonfinancial rewards, young candidates are more attracted to them. Supporting the hypothesis, our results show that nonfinancial rewards help organizations to attract more young educated talent. These findings are consistent with those of other researchers (Terjesen *et al.*, 2007) who found a positive association between rewards and organizational attractiveness.

Secondly, we contribute to human resources management literature by examining the association between nonfinancial rewards and organizational attractiveness collecting data from a sample of generation Y undergraduates. Most studies on rewards and talent acquisition are based on the general population. As we explained at the beginning, career expectations of different generations are varied, and anecdotal evidence has proven that unlike generation X and the baby boomers, candidates from generation Y are motivated by benefits such as leisure and quality of life. Thus by empirically testing the association between nonfinancial benefits and career expectations of (especially educated) candidates generation Y we enhance our understanding of which factors help to attract generation Y candidates to organizations.

5.2. Practical implications

This study provides a recommendation to the corporate sector and the policy makers. The results of this study show that nonfinancial rewards have a significant impact on organizational attractiveness. In other words, nonfinancial rewards appeal to generation Y undergraduates. Although we have not separately analyzed the impact of each of the three components of nonfinancial rewards, - work-life balance, career development, and learning opportunities - on organizational attractiveness, we recommend that organizations provide facilities for better work-life balance. This may include a manageable workload, supportive co-workers and superiors, flexible work arrangements, and, if possible, virtual office arrangements. We recommend organizations to provide opportunities for career development and learning (e.g. grant study leave, payments for higher studies, local and overseas training).

5.3. Limitations and avenues for future researchers

This study has a few limitations that we need to acknowledge. First, the sample of this study is limited to management undergraduates from three universities in Sri Lanka and they are in the age below 25 years. Although this is one of the strength of this study, future research need to test our research model with different samples, such as undergraduates from other study schemes, job seekers with vocational and technical training. Second, we surveyed only 150 undergraduates, which are a relatively small number. Thus, we recommend future researchers to test this model with bigger sample including undergraduates from other schemes such as engineering. Third, to measure non-financial rewards, we used only three dimensions. However, future researchers can look into other dimensions to measure the non-financial rewards. Next we measured all variables using self-report survey method at one point in time. This may lead to a common method bias as we measured predictor variable and criterion variable in the same survey at the same time (Podsakoff *et al.*, 2003).

Thus, future researchers need to be addressed these issues. Third, in this study, we considered only the non-financial rewards as a predictor of organizational attractiveness and we have not even control for financial rewards. Thus, further research needs to be addressed this limitation.

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Appendix

The survey items

Non-financial rewards (all measures were five point scale)

1. Recognition provided to you by your employer
2. The extent to which your employer respects differences in race, gender and age
3. The opportunities offered to you by your company for learning and career development outside of your current job e.g. sabbaticals, coaching, mentoring, leadership training
4. The opportunities offered to you by your company for career advancement e.g. job advancement/promotions, internships, and apprenticeships with experts, internal job posting
5. The quality of performance feedback and performance discussions you have had with your supervisor
6. The extent to which you believe your contribution and work is valued
7. The level of challenge and interest you derive from your job
8. The extent to which you are provided with challenging targets
9. Having a manageable workload and reasonable work pace
10. Having supportive and like – minded colleagues
11. The opportunities offered to you by your company for training within your current job e.g. skills training
12. The extent to which your employer supports a balanced lifestyle (between your work and personal life)
13. Your employer's provision of work/life programs such as flexible working arrangements, flexible hours
14. Having social friendships at work
15. The degree to which your employer encourages and organizes team building or other social networking activities amongst employees

16. Your employer's provision of employee health and wellness programs e.g. Employee Assistance Programs, counselling services, fitness centers
17. The provision of a competitive pay package (i.e. basic salary plus benefits, allowances or variable pay)
18. Your employer's provision of medical aid, retirement and pension benefits
19. Your employer's provision of incentive bonuses/variable pay
20. The provision of recognition via non-financial means e.g. certificates of Recognition.

Organizational attractiveness

i) The Organization you want to apply is led by a female

1. I would really like to work for this company
2. I'm very interested in pursuing my application with this company if offered one
3. I would be very willing to accept the job with this company if offered one

ii) The Organization you want to apply for strives to be diverse company that represent people from all races and genders

1. I would really like to work for this company
2. I'm very interested in pursuing my application with this company if offered one
3. I would be very willing to accept the job with this company if offered one

iii) The Organization you want to apply for has flexible working hours for family circumstances

1. I would really like to work for this company
2. I'm very interested in pursuing my application with this company if offered one
3. I would be very willing to accept the job with this company if offered one