



## Section 1. Economics

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### THE EFFECT OF NON-FINANCIAL INCENTIVES ON EMPLOYEE ENGAGEMENT AND EMPLOYEE RETENTION

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#### Abstract

This study examines the influence of non-financial initiatives on employee engagement and retention. Through surveys of 285 employees across diverse departments, identified key factors beyond compensation that drive engagement, such as clearly defined roles, strong leadership perception, opportunities for professional development, and a positive, supportive work environment with open communication and recognition programs. These findings reveal the potential for organizations to implement cost-effective strategies that enhance employee engagement, minimize turnover, and ultimately, strengthen their organizational effectiveness and competitiveness. Ultimately, the study underscores the crucial role of non-financial initiatives in building a culture of engagement, which serves as the cornerstone of successful employee retention strategies.

**Keywords:** *employee engagement, employee retention, non-financial incentives, human resources*

#### Introduction

Today's HR management requirements make it important to understand how employee engagement affects employee retention. Employee retention is critical for businesses, as losing talented employees can lead to lower productivity, higher recruitment costs and lower competitiveness. Many companies now recognise the importance of employee engagement and are taking steps to improve it, such as improving the working environment, providing training and devel-

opment opportunities, and creating opportunities for professional growth and career development.

Throughout this investigation, a well-established enterprise specializing in subsea equipment restoration and leasing, which is a division of the Azneft Production Association, has encountered significant challenges in preserving its workforce. This situation has begun to have a negative impact on the business of the company, especially in the area of continuity of the production process. Disruption of the

production process due to employee turnover can result in missed opportunities and additional costs to find and train new employees. In addition, instability in the workplace can discourage potential candidates from joining the company, making it even more difficult to retain talent. Based on this, it has become necessary to take measures to retain employees. In the process of conducting the annual survey, it was discovered that employee engagement was at a low level. Indeed, low levels of employee engagement can be one of the causes of employee turnover. In this regard, options related to increasing the level of employee engagement in the company can be considered to prevent employees from leaving.

According to prior investigations conducted by Seema and Sandeep, non-financial incentives play a crucial role in influencing employee engagement and retention. These incentives include providing non-monetary rewards, creating a positive work environment, offering training and development opportunities, and implementing employee-friendly practices (Seema & Sandeep, 2023). Engaged employees experience positive emotions, better health, and enhanced competence, which in turn leads to talent retention. Non-financial benefits such as recognition, work-life balance, job enrichment, and employment stability contribute to employee motivation and satisfaction. Organizations need to adapt employee-friendly practices and retention strategies to attract and retain top talent. Training and development programs play a crucial role in employee growth and development, leading to increased engagement and performance levels (Emmy et al., 2022). Overall, non-financial initiatives are essential for fostering employee engagement and improving employee retention in organizations.

The importance of employee engagement in employee retention cannot be overstated, especially when considering the significant impact it can have on an organization's overall success. In today's competitive business landscape, companies are increasingly recognizing that fostering a culture of engagement among their employees is crucial for retaining top talent and driving productivity. By creating a supportive work environment, offering opportunities for growth and development, and providing avenues for professional advancement,

businesses can effectively enhance employee engagement and subsequently improve talent retention. Moreover, organizations must also address any underlying factors contributing to low levels of engagement, as this can directly influence employee turnover rates and ultimately affect the company's bottom line (Dyke-Ebrika & Amah, 2022).

### **Employee engagement**

Employee engagement is a widely researched topic in the field of organisational behaviour and management and there is an extensive literature on the subject. In his study, Kahn first introduced the concept of personal work engagement and identified three psychological conditions that contribute to it: meaningfulness, safety and availability. The study also highlights the importance of personal involvement in achieving positive employee outcomes such as job satisfaction and commitment to the organisation (Kahn, 1990).

William H. Macey and Benjamin Schneider are known for their research in the field of employee engagement. They defined this concept in terms of three aspects: psychological, emotional and behavioural, which are directly relevant to the work of HR professionals (Macey & Benjamin, 2008).

Psychological engagement refers to the intrinsic personality traits that make a person prone to engagement, such as natural curiosity, willingness to participate in decision-making, and interest in problem solving. These traits can be considered in recruitment and hiring. In contrast, emotional engagement depends on workplace conditions and practices, such as having a variety of tasks and opportunities to participate in decision making, which can be enhanced by management through horizontal and vertical expansion of the range and composition of tasks. Behavioural engagement is expressed in terms of the amount of effort employees put into their work, resulting in better performance and higher productivity than their less engaged colleagues. Behavioural engagement can occur when both psychological and emotional components are present.

A study by Schuck and Reyo examined the relationship between employee engagement and employee wellbeing using survey

data from 528 employees across a variety of industries. The study found that employee engagement has a positive impact on employee wellbeing, and the relationship is governed by social support and work-life balance. Researchers believe that organisations should take a holistic approach to fostering employee engagement, addressing both work and non-work factors that contribute to well-being (Shuck & Reio, 2014).

Another study conducted by Sachs examines the antecedents and consequences of employee engagement using data from over 6,000 employees in various industries. The study found that work resources (such as autonomy and social support) and personal resources (such as self-efficacy and optimism) were important predictors of engagement. In addition, employee engagement was positively related to job performance, job satisfaction and commitment to the organisation (Saks, 2018).

Employee engagement can also be described as a way of maximising the potential of employees by creating a mutually beneficial relationship in which employees feel that the employer hears them and values their work, and provides a suitable environment for them to fulfil their potential (SHRM: People, 2021).

Overall, employee engagement is a critical factor in the success of an organisation and research has identified several key factors that can influence it. By taking a comprehensive and integrated approach to employee engagement, organisations can create a positive work environment that attracts, retains and motivates talented employees.

### **Employee retention**

Employees are known to be a valuable asset of an organisation and management makes efforts to retain key performers. The concept of employee retention can be interpreted differently depending on the context.

According to Gallup research, organisations with high employee engagement have 59% lower employee turnover than those with low employee engagement. This emphasises the importance of Human Resource Management (HRM) in ensuring employee retention. Hence, employee engagement has a significant impact on employee retention. Engaged employees are more likely to stay with their organisation while unengaged em-

ployees are more likely to leave. Below are some key ways in which employee engagement can affect employee retention:

1. Improved job satisfaction: engaged employees are more satisfied with their jobs because they feel a sense of purpose and meaning in their work. This can lead to higher levels of job satisfaction and a greater likelihood of staying with the organisation.

2. Stronger commitment to the organisation: engaged employees are more committed to their organisation because they feel connected to its goals and values. This can lead to a greater desire to stay with the organisation, even in the face of challenges or opportunities to leave.

3. Increased productivity: Engaged employees are more productive because they are motivated to contribute to the success of the organisation. This can lead to higher levels of productivity and a greater sense of accomplishment, which in turn can contribute to higher levels of job satisfaction and commitment.

4. Positive work culture: engaged employees contribute to a positive work culture as they are more likely to support and co-operate with their colleagues. This can lead to a more supportive and cohesive working environment, which can contribute to employee retention by creating a sense of community and belonging.

5. Recognition and feedback: engaged employees are more likely to receive recognition and feedback for their work because they are more visible and valued in the organisation. This can contribute to higher levels of job satisfaction and commitment, and a greater sense of loyalty to the organisation.

Human resource management plays a crucial role in employee engagement and retention. In today's world, employees expect not only a good salary, but also a broader set of benefits from their employer. HRM helps companies create an environment that attracts and retains the best candidates.

Zeytinoglu and Denton conducted a study on the effect of work environment on job satisfaction, stress levels and quit intentions among health care workers. They found that a positive work environment was associated with higher job satisfaction, lower stress levels, and higher employee retention. Specifically, they identified several key factors that contribute to a positive work environment, including management

support, teamwork and collaboration, professional development opportunities, fair compensation and benefits, and a safe and healthy work environment. They also found that a positive work environment can help mitigate the negative effects of stressful job demands and increase employee resilience and job satisfaction (Zeytinoglu & Denton, 2005).

According to a study conducted by Mohsen and Sharif, employee involvement in management can improve the quality of decision making and contribute to more effective organisational performance (Mohsen & Sharif, 2020). This study analysed 128 employees' responses to 28 questions and found that organisations that actively involve their employees in decision making are statistically more successful in the market. In a study on the impact of transformational leadership on employee engagement, it was found that organisational leaders who demonstrate transformational leadership can increase employee engagement and improve employee retention in the organisation (Fransiska, Ayi Ahadiat & Hayati, 2021). Transformational leaders encourage employee participation in decision making, provide feedback, and support the development of their employees.

In the study "Employee Retention: A Review of Literature", the authors found that career development influences employee retention by increasing employee job satisfaction. They also found that job satisfaction is a key mediator between career development and employee retention (Das & Baruah, 2013).

In general, research confirms that the human resource management department can influence employee engagement and retention through a variety of activities and practices. Such activities and practices include creating a supportive work environment, organising feedback systems, providing opportunities for professional development and improving corporate culture.

### **Research Methodology**

The study area is a pilot subsea equipment repair and leasing company with 285 employees spread across 21 departments.

Data was collected from employees through an employee engagement and retention questionnaire. All major departments of the company were covered in the study. This

study used quantitative research method which is descriptive in nature. Both primary and secondary data were used for the study. Primary data was collected through questionnaires and secondary data was obtained from internal reporting system.

Various methods were used to analyse the data, including statistical analysis, correlation analysis, multiple regression analysis, etc. Standard questionnaires for measuring engagement and job satisfaction, as well as additional questionnaires created specifically for this study, were also used.

Overall, the methodology of the study was based on the analysis of data obtained from the survey, as well as literature review and analysis of company practices used to improve employee engagement and retention in the organisation.

Based on the literature review and discussion with senior management, 10 factors influencing engagement were identified. Next, a survey was conducted among employees asking them to select the most influential determinants for them. Out of the 10 factors such as belief in leadership, pay and benefits, professional growth and development opportunities, work environment and culture of the organisation, level of autonomy and freedom at work, relationships between colleagues, job security, work-life balance, clarity of employee goals and objectives, relationship with management, only 6 most influential non-financial determinants were selected for further analysis. In order to improve employee engagement and performance, a comprehensive performance improvement action plan was developed and successfully implemented. This plan includes:

- Organisation of regular group and individual meetings with the presence of the director, where production issues can be discussed and employees' opinions on current projects and tasks can be sought.

- The use of pulse surveys, which are conducted regularly to assess the level of employee satisfaction and engagement. They allow receiving feedback from employees and identifying problematic moments in the work of the team that need to be solved immediately. It is planned to conduct such surveys on a monthly basis at this enterprise.

- Organising events to increase team spirit: sports events, various games and

tasks, corporate evenings, team building events, etc. Such events will help employees get to know each other better and create a more friendly atmosphere in the workplace.

- Implementing an open door policy. It allows employees to meet with supervisors and senior management on any issues. At a subsea equipment repair and rental facility, the management decided to receive employees every Monday and Friday from 16:00–18:00.

- Implementing a system of non-material bonuses. Such a system can help incentivise employees to work more efficiently and increase their engagement in the workplace. This system involves the creation of an honour board, as well as nominations such as “Employee of the Year”, “Discovery of the Year”, etc.

- Creating team projects. Creating team projects where employees work together on a common task can help build team spirit and increase engagement. It is important to choose projects that will be of interest to all team members and will focus on achieving specific results.

- Providing opportunities for training and development. Training and development of employees is an important factor that will help to increase their motivation and engagement.

- Organisation of an employee onboarding system to speed up the process of integrating new employees into the team and better understand the company’s expectations, which in turn can increase their level of motivation and engagement. The onboarding programme for this company is designed according to a structured 30–60–90 system and includes the following aspects: orientation day, introduction to the company and the team, information and reference materials, assignment of a mentor, setting goals and training objectives

by the end of the 30–60–90 day, and a system for tracking the progress of the plan.

### Hyphoteses:

Two null hypotheses were formulated:

H1 – implementation of planned measures aimed at non-financial factors has no significant effect on the level of employee engagement;

H2 – increasing the level of engagement does not lead to a significant improvement in employee retention.

Data collection

Once both questionnaires had been collected, the data was analysed to determine a baseline level of engagement and retention. An action plan was then developed to increase engagement factors that did not require a direct financial outlay. Hypotheses were formulated for the study and engagement and retention levels were assessed after 6 months by completing a questionnaire. The results were compared to the baseline data and the hypotheses were tested.

Despite the availability of various methods for measuring retention, they are not adapted to measure this indicator for a company with this specificity. Since the central idea of this study is to examine employee retention through the lens of engagement, the first step is to design a questionnaire with the right questions to measure engagement. As the drivers of engagement have been identified as clarity of goals and objectives, belief in leadership, opportunity for professional growth and development, work environment and culture of the organisation, job security and meaningfulness of work, it is important that the questions are about assessing these factors. The final list of questions to assess employee engagement is presented in Table 1.

**Table 1.** *Employee engagement survey questions, translation from Azerbaijani*

Question	Determinant
I know what is expected of me in my work	Clarity of goals and objectives
My supervisor is a great role model for employees	Belief in leadership
This is a great company for me to contribute team development	Opportunity for professional growth development
There is a caring atmosphere at my workplace	Working atmosphere and organisational culture



Question	Determinant
My workplace is safe and secure	Safe operation
The work I do in the company has purpose and meaning	Significance of the work

In order to assess the level of employee retention in a given company, a questionnaire methodology is used to measure employees' intentions to leave the company. The exit intention questionnaire contains a series of questions that help determine how likely an employee is to leave the company in the near future. This questionnaire is based on a five-point Likert scale that measures both high and low dimensions of all variables (from 1 = strongly disagree to 5 = strongly agree) and contains the following questions:

- How true is the statement, "I am thinking of quitting this organisation"?
- How likely is it that you will start actively looking for a new job in the next few months?
- How willing would you be to consider taking another job if the opportunity arose?
- How would you rate your intentions to stay with the company in the next 6-12 months?

### Reliability test

The reliability test that was carried out on the questionnaire has provided confirmation that there exists a significant level of internal consistency between the various items that were given, which in turn serves as an indication of the reliability of the questionnaire as well as the accuracy of the results that were obtained from it.

### Analysis and Result

The data collected is statistically analysed and then the results are analysed and discussed.

#### H1: implementation of planned activities targeting non-financial factors

#### has no significant impact on the level of employee engagement.

To evaluate the effectiveness of the action plan, paired t-test was applied on the same sample before and after implementation of the changes. From the paired t-test conducted, a t-statistic value of -15.523 was obtained at a significance level of  $p < 0.001$  (Table 3). This indicates that the differences between the mean values before and after implementation of the action plan are statistically significant. The mean number of observations increased by 17 units from 49.8456 to 66.7063 ( $t = -15.523, p < 0.001$ ) (Table 2). The lower and upper limits of the 95% confidence interval are as follows -18.9962 and -14.7253 respectively, which also indicates a significant improvement (Table 3). However, it should be kept in mind that the standard deviation is high and may indicate significant variability in the data. Thus, it can be concluded that the implementation of the action plan by the enterprise resulted in a statistically significant increase in the level of engagement and hence the null hypothesis is rejected.

#### H2 – increased engagement does not significantly improve employee retention.

A regression model was constructed to analyse the relationship between the level of engagement and the employee's intention to leave. In this case, the employee's intention to leave was chosen as the dependent variable and the level of engagement as the independent variable. The purpose of constructing the regression model is to determine how well the level of employee engagement can predict their exit intentions. Based on Table 4, the following conclusion can be drawn:

Table 2. Paired sample statistics

	n	Average	Mean square deviation	Standart Error
LevelBowlDo	395	49.8456	20.0626	1.0095
LevelAfter	395	66.7063	23.9192	1.2035

**Source:** Calculated by the author on the basis of data from questionnaires using the SPSS program

**Table 3.** Paired sample test

Pairwise differences							
Average	Mean square deviation	Standart error	Confidence interval (95%)		t-test	df	Significance
			Lower	Upper			
-16.86076	21.5873	1.0862	-18.9962	-14.7253	-15.523	364	.000

**Source:** Calculated by the author on the basis of data from questionnaires using the SPSS program

The level of employee engagement is significantly related to their intentions to leave. The value of correlation coefficient (R) is 0.844, which indicates a strong direct relationship between the independent variable (engagement level) and the dependent variable (exit intentions). The coefficient of determination (R-Squared) is 0.713, which means that 71.3% of the variation in exit intentions can be explained by the level of employee engagement. Beta coefficient (beta coefficient) is -0.844, which indicates that when the level of engagement increases by one unit, the intention to leave decreases

by 0.844 units. The negative sign of the coefficient indicates that there is an inverse relationship between the independent and dependent variables: the higher the level of engagement, the lower the intentions to leave. The t-statistic (t) value is -31.251, at  $p < 0.05$ , indicating that the differences between the mean values of the two groups (high and low involvement) are statistically significant and unlikely to be random. Thus, we can reject the null hypothesis and accept the alternative hypothesis: the higher the level of employee engagement, the less likely it is that the employee will leave.

**Table 4.** Coefficients of the regression model

R	R <sup>2</sup>	Standard estimation error	Non-standardised coefficient B	Standrdised coefficient Beta	t	Meaning	
0.844	0.713	2.17787	-0.143	0.005	-0.844	-31.251	.000

**Source:** Calculated by the author on the basis of data from questionnaires using the SPSS program.

### Conclusion

This study was conducted during a period of high employee turnover in a subsea equipment repair and rental pilot facility to determine how to improve employee retention by increasing employee engagement. The study provided statistical evidence that it is possible to improve employee retention without the use of financial resources by addressing non-financial engagement factors such as clarity of goals and objectives, belief in leadership, opportunities for professional growth and development, work environment and culture of the organisation, job security and job meaningfulness. The implications of these findings extend beyond the immediate context of the study, serving as a solid foundation

for further exploration and investigation or even the potential implementation of similar methodologies within other manufacturing businesses that are seeking a cost-effective approach to employee retention.

However, a limitation of this study is the lack of detailed analysis of the impact of each factor individually, instead a holistic approach was used. To expand our knowledge in this area, future research could be conducted in two directions: firstly, to determine the impact of non-financial factors individually on employee engagement and retention, and secondly, to include the financial factors of employee engagement and conduct a detailed analysis of the impact of engagement factors on employee retention.

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