

Impact of Recognition on Motivation and Performance: The Case of SMEs In Dhaka City

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This research paper investigates the impact of informal and formal recognition on motivation and performance, by taking into account the feedback of front-line supervisors of SMEs at Dhaka city. The regression analysis results show that informal recognition has significant relationship with employee motivation and performance of the frontline employees of Food and Boutique shops of Dhaka city. Formal recognitions do not have any relationship with frontline employee motivation, but it has relationship with frontline employee performance. The paired samples t-test results show that though both informal and formal recognition influences improvement in time efficiency of employee performance; extent of improvement is greater in case of informal recognition.

JEL Codes: M12, M52, M54

1. Introduction

According to Grawitch (2010), rewards focus primarily on providing people with economic exchanges for accomplishing some sort of performance goal or set of performance goals. Recognition on the other hand, appears to be much more focused on contributions and effort, rather than strictly on performance goals (Grawitch 2010). Recognition means nothing if it is given out wantonly or if it seems insincere. In the latter case, it does not make any connection with the people. Recognition is meaningfully personal and completely separate from compensation/reward (Day 2013).

According to Revised Code of Washington (2013), informal recognition is simply what one does regularly to let employees know when he or she notices and appreciates their work. It needs to be timely, specific, and sincere. On the other hand, formal recognition is a set of established programs or practices that a department adopts to foster recognition (Revised Code of Washington, 2013). It typically involves a planned event or presentation where employees are recognized for their achievements. Formal recognition often has certain policy, legal requirements and need permission of management.

Performance can be seen as the result of activities over a given period of time (Illmer 2011). Goffman (1959) defines “performance” as all the activity of a given participant on a given occasion which serves to influence in any way the other participants.

Front-line employees are central to the concept of customer-focused organizations as their behaviors influence customers’ perceptions of the quality of the service provided (Zeithaml et al. 1988). The success of recently highlighted SMEs in Bangladesh in the sub-sectors of small food shops, boutique shops, retail Shops, cybercafés and internet services, guest

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houses at the tourist areas (individually owned), event management companies, interior design providers due to rapid growth of real estate business etc. rely heavily on the front-line employees dealing with customers. Thus, role of front line employees in the SME enterprises is seen as very important by SME owners and experts for successful business operations (N Amin, 2012, pers. comm., 10 July).

Expansion of SMEs is considered one of the major element in the industrial policy of the sixth five year plan of Bangladesh (2011-2015). But SMEs are still short of producing at a level of international standards (Huq 2013). Most of the study attributed the quality gap mainly to lack of finance, information, technology and performance of employees. However, research on linking employee performance to improving quality in SMEs of Bangladesh has been found to be very limited.

This study is based on the notion that not only finance and technology, but motivation of employees is equally important for improving employee performance and product/service quality. Vast researches have already established that SMEs chronically suffer from cash crunches, and therefore relying heavily on monetary rewards only as an instrument for motivating employees might not be a good idea. Consequently, it seems logical that SMEs should explore the effectiveness of recognition as a major tool for increasing motivation of their employees and subsequently for improving performance.

This study could not find research or data regarding the effectiveness of recognition upon motivation of the employees of SMEs in Bangladesh. Therefore, studies in this area could make a notable early contribution for development of SMEs in Bangladesh.

This study generates evidences, which at present are largely unavailable, regarding effect of recognition on motivation and performance of front-line employees of SME sector of Bangladesh. Unlike most of the previous studies which examined either effect on performance mainly or effect on motivation mainly, this study examined effect of recognition on both motivation and performance. One major finding of the study, which was not highlighted in previous works, is that although both informal and formal recognition can have positive effect on employee performance; the effect of informal recognition on motivation is greater.

The research questions that are addressed in this research study are:

- a) What are the impacts of informal recognition to front line employee's motivation and performance?
- b) What are the impacts of formal recognition to front line employee's motivation and performance?
- c) Which one has better impact on motivation and performance?

The aim of the study was to explore the impact of recognition for the frontline employees for optimization of their performance through implementing informal and formal recognition system. The following specific objectives will be addressed:

- 1) To identify the important informal and formal recognition factors for motivation and performance.
- 2) To examine the relationship among informal recognition, employee motivation and performance.

- 3) To examine the relationship among formal recognition, employee motivation and performance.
- 4) To see whether there is any difference between general performance time and performance time after giving informal and formal recognition to the employees.

The rest of this paper is structured in the following way: section 2 presents a review of the more relevant literature for this research; section 3 presents the methodology adopted for this study; section 4 covers analysis and discussion of the findings; and section 5 draws conclusion about this study.

2. Literature Review

Past research has demonstrated the positive motivational effects reward programs have on employee performance (Guzzo et al. 1985). However, non-cash compensation is also increasingly used in Western countries (Hashimoto 2000), and its importance in recruiting and retaining employees has been highlighted by many human resource experts (Healey 1998).

It is recognized that smaller firms tend to pay lower wages and have higher employee turnover than larger firms (Evans & Leighton 1989). Effective management of human resources is crucial to the successful management of small businesses. Small firms tend to have higher failure rates than large organizations (Evans & Leighton 1989).

Gungor (2011) examines the relationship between the reward management system applications and employee performance of bank employees on global banks in Istanbul and shows that reward management system applications are significantly and positively related to employee motivation and performance.

In peer production, informal rewards from fellow contributors is believed to be a substitute for material incentives to dedicate time and resources (Restivo & Rijt 2012). Danish & Usman 2010 shows that different dimensions of work motivation and satisfaction are significantly correlated and reward and recognition have great impact on motivation of the employees.

Another study shows that, reward and recognition are usually regarded as synonyms. But only when recognition and reward are treated as two distinct phenomena will the effectiveness of employee motivation initiatives be improved (Hansen, Smith & Hansen 2002).

Several studies have researched the issue of impact of both reward and recognition on motivation and performance; however, we did not find any distinct study that addressed this issue in the context of SMEs exclusively. Further, most studies investigated reward and recognition together but studies addressing impact of recognition solely are not available. In addition, the comparison of impact of formal and informal recognition was not covered.

The foregoing review and analysis have led us to propose the following hypotheses in the following manner:

- Hypothesis 1: There is no relationship between informal recognition and motivation
Hypothesis 2: There is no relationship among informal recognition, motivation and

- performance.
- Hypothesis 3: There is no relationship between formal recognition and motivation.
- Hypothesis 4: There is no relationship among formal recognition, motivation and performance.
- Hypothesis 5: There is no change between general performance time and performance time after giving informal recognition to the employees.
- Hypothesis 6: There is no change between general performance time and performance time after giving formal recognition to the employees.

3. Methodology

3.1 Research Design

The research design was based mainly on the exploratory and analytical approach. Exploratory research tends to tackle new problems on which little or no previous research has been done (Brown 2006). Moreover, It can even help in determining the research design, sampling methodology and data collection method for a greater research (Singh 2007). Exploratory research is an initial research conducted to clarify and define the nature of a problem which does not provide conclusive evidence and expect subsequent research (Zikmund 2003).

Many researches have been found to dictate the relationship among reward, motivation and performance of the employees. But this research intends to discover the relationship of recognition, motivation and performance in the context of SME industries of Bangladesh.

3.2 Selection of Model and Variables

Regression model and paired T-tests were used for testing the hypotheses as these are widely used in academic publications. Selection of the variables for the study was initially used qualitative methods like desk study and focus group discussions. From desk study, a set of initial variables were prepared which were then put to confirmation by industry experts through focus group discussion. The opinions of the industry experts were utilized for screening the initial list. The list was further refined by conducting a factor analysis using responses from the sample of SME employees surveyed by the study for investigation.

3.3 Source of Data

Primary data have been used for this research. Managers and experts on the research issue from reputed organizations are the sources of data in FGD sessions in the first phase. Outcome of this phase was used to select key variables which were measured by the second questionnaire administered on supervisors of different SME industries of Bangladesh.

3.4 Sample Size for the Preparation of Instrument

10 reputed organizations including MNCs with strong reward and recognition systems have been carefully chosen for the selection of variables and preparation of the final questionnaire for the target primary respondents for this research.

The sampling elements for the study are the supervisors of SMEs in selected sectors, located in the Mohammadpur area of Dhaka city. A total of 60 supervisors; 30 Restaurant

supervisors and 30 Boutique Shop supervisors, are selected who were surveyed through the questionnaire. Sample size of 30 was determined for each SME sector as several textbooks discussed this size as “fair enough” for “normal approximation”.

3.5 Selection of Variables for the Instrument

At first, 15 variables (8 informal recognitions and 7 formal recognitions) are selected (from Harvey P. (2000) for this research purpose. Questionnaire was prepared on these 15 variables and FGD (Focus Group Discussion) test is conducted on 10 organizations to find which variables they choose as informal recognitions and which variables they choose as formal recognitions. The FGD test was conducted on total 60 employees (5 mid-level employees and one Human Resource Manager of 10 organizations). The common 12 variables which they have selected were finally taken and were included in the second questionnaire prepared for supervisors of food and boutique sector of Bangladesh

3.6 Data Analysis Technique

Statistical software SPSS is used to statistically show the relationship between informal and formal rewards and recognition to employee productivity and performance. 5 different tests are run to strengthen the hypothesis of this research. The tests are reliability test, Pearson correlation, factor analysis, regression analysis, and paired t-test.

4. Analysis and Discussion

4.1 Reliability Test

A trial and error process was conducted to test reliability of the items After several trials, the Cronbach’s score for motivation on 9 items (5 informal recognition items and 4 formal recognition items) is .774. The scores indicate that the internal consistency level is reasonable for further analysis.

4.2 Pearson Correlation Coefficients

Table 1: Values of Pearson correlation coefficients

Model	Variables	Significance Level	Correlation Coefficients
1	Informal Recognition-Motivation	.010	.730
2	Informal Recognition-Performance	.030	.898
3	Formal Recognition-Motivation	.046	.437
4	Formal Recognition-Performance	.003	.704

Four models, consisting of the variables as shown above was analyzed and except for the formal recognition-motivation model, reasonable measures of correlation were obtained for the rest of the models.

4.3 Factor Analysis

4.3.1 Measures of appropriateness

The KMO measures of sampling adequacy for informal recognition-motivation, informal recognition-performance, formal recognition-motivation, and formal recognition-performance were found to be .629, .513, .699 and .599 respectively. The Bartlett's test for sphericity indicates that the variables are correlated and suitable for structure detection as the significance value is less than .05 for all the models.

4.3.2 Importance of Recognition Items

This part of analyses used factor analysis to identify the most important types of recognition that the surveyed SME supervisors use. Importance of recognition types or items were separately analyzed for formal and informal recognition, and motivation and performance. The results are discussed here.

Most important informal recognition items for motivation:

- Telling work mistakes (component 1: score .878)
- Giving supervising proposals (component 1: score .791)
- Providing early leave (component 2: score .740)

Most important formal recognition items for motivation:

- Employee letter of appreciation (component 1: score .872)
- Organizing special events to praise employees (component 1: score .712)
- Providing certificate (component 1: score .631)

Most important informal recognition items for performance:

- Providing flexible work schedule (component 1: score .717)
- Providing early leave (component 2: score .662)

Most important formal recognition factors for performance

- Providing certificate (component 1: score .828)
- Employee letter of appreciation (component 1: score .798)
- Providing gift voucher (component 1: score .761)
- Authorized leave (component 2: score .894)

4.4 Regression analysis

Regression analysis is conducted to see the relationships between two or more variables. In our research paper, we conduct 4 regressions to understand the relationships among informal recognition, formal recognition, motivation and performance.

Hypothesis 1: Relationship between informal recognition and motivation:

Table 2. Model summary for informal recognition and motivation

Model Summary ^b								
Model	R	R Square		Adjusted R Square		Std. Error of the Estimate		
1	.782 ^a	.611		.573		.19049		
a. Predictors: (Constant), INFORRECOG								
b. Dependent Variable: INFMOTI								
Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.271	.265		12.352	.000		
	INFORRECOG	.253	.095	.330	4.659	.010	1.000	1.000
a. Dependent Variable: INFMOTI								

Here is a relatively strong positive relationship between informal recognition and motivation. The coefficient table shows that the informal recognition has t-statistics of 4.659 with a significance level of .010. As the significance level is less than .05 and the t-statistics is statistically significant, so,

Null hypothesis, H₀:

“There is no relationship between informal recognition and motivation”= Rejected.

Hypothesis 2: Relationship among informal recognition, motivation and performance:

Table 3: Model Summary for informal recognition, motivation and performance

Model Summary								
Model	R	R Square		Adjusted R Square		Std. Error of the Estimate		
1	.813 ^a	.661		.624		.21801		
a. Predictors: (Constant), INFMOTI, INFORRECOG								
Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.652	.479		5.532	.000		
	INFORRECOG	.113	.096	.162	2.182	.042	.891	1.122
	INFMOTI	.100	.125	.110	1.801	.026	.891	1.122
a. Dependent Variable: INFPER								

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The table above shows that there is a strong positive relationship among informal recognition, motivation and performance. The coefficient table shows that both the significance levels are less than .05 and the t-statistics are statistically significant, so,

Null Hypothesis, H_0 :

“There is no relationship among informal recognition, motivation and performance”=
Rejected

Hypothesis 3: Relationship between formal recognition and motivation:

Table 4: Model summary for formal recognition and motivation

Model Summary								
Model	R	R Square		Adjusted R Square		Std. Error of the Estimate		
1	.337 ^a	.114		.094		.12747		
a. Predictors: (Constant), FORRECOG								
Coefficients ^a								
Model	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.028	.170		23.649	.000		
	FORRECOG	.143	.077	.237	1.856	.069	1.000	1.000
a. Dependent Variable: FRMOTI								

The model summary table shows that there is a positive but very weak relationship among formal recognition and motivation. This may be examined again in future with a larger sample size. As the significance level is greater than .05 and the t-statistics is statistically insignificant, so,

Null hypothesis, H_0 :

“There is no relationship between formal recognition and motivation”= Accepted.

This seems to be an important new contribution of this study. As we will find later in this paper, that although both informal and formal recognition have relationships with employee performance, this study suggests that there is not enough evidence to support that formal recognition can have strong effect on employee motivation.

Hypothesis 4: Relationship among formal recognition, motivation and performance:

Table 5: Model summary for formal recognition, motivation and performance

Model Summary									
Model	R	R Square		Adjusted R Square		Std. Error of the Estimate			
1	.403 ^a	.163		.133		.22760			
a. Predictors: (Constant), FRMOTI, FORRECOG									
Coefficients									
Model4		Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta				Tolerance	VIF
1	(Constant)	2.318	.803			2.887	.005		
	FORRECOG	.310	.115	.337		2.704	.009	.944	1.059
	FRMOTI	.236	.190	.155		1.243	.219	.944	1.059

In this case also, a weak positive relationship among informal recognition, motivation and performance is found. Only 16% of the values fit the model. The coefficient table shows that formal recognition has a t-statistics of 2.704 with a significance level of .009 and motivation has a t-statistics of 1.243 with a significance level of .219. Here, as the significance level of formal recognition is less than .05 and the t-statistics is statistically significant, therefore,

Null Hypothesis, H₀: There is no relationship among formal recognition, motivation and performance = Accepted

4.5 Paired-Samples T-Test

A paired sample t-test is used to compare two population means where you have two samples in which observations in one sample can be paired with observations in the other sample. Here, we want to see, whether the performance time changes because of proving informal and formal recognition to the employees.

Hypothesis 5:

In the first paired t-test, we will consider general performance time and performance time after giving informal recognition to the employees.

Table 6: Paired samples correlations for general performance time and performance time after giving informal recognition

Paired Samples Correlations									
		N	Correlation	Sig.					
Pair 1	TPNULL & IRPAFTER	60	.961	.000					
Paired Samples Test									
Paired Differences									
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
					Lower	Upper			
Pair 1	TPNULL - IRPAFTER	3.43333	1.05088	.13567	.92019	1.46314	8.784	59	.000

The correlation between general performance time and performance time after giving informal recognition is .961 (Table 6). This indicates that they have a very strong positive relationship. Besides, the mean deviation of the samples is 3.43 with significance level of .000 and t-statistics of 8.784. As the significance level is less than .05 and the t-statistics is statistically significant, we can say,

Null hypothesis, H₀:

“There is no change between general performance time and performance time after giving informal recognition to the employees”= Rejected

Hypothesis 6:

In the second paired t-test, we will consider general performance time and performance time after giving formal recognition to the employees.

Table 7: Paired samples correlations for general performance time and performance time after giving formal recognition

Paired Samples Correlations									
		N	Correlation	Sig.					
Pair 1	TPNULL & FRPAFTER	60	.944	.000					
Paired Samples Test									
Paired Differences									
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		T	df	Sig. (2-tailed)
					Lower	Upper			
Pair 1	TIRPNULL - FRPAFTER	1.1917	1.24692	.16098	3.11122	3.75545	21.328	59	.000

The correlation between general performance time and performance time after giving formal recognition is .944 (Table 7). This indicates that they have a very strong positive relationship, but it is slightly lower than the previous relationship. Besides, the mean deviation of the samples is 1.19 with significance level of .000 and t-statistics of 21.328. As the significance level is less than .05 and the t-statistics is statistically significant, we can say,

Null hypothesis, H₀:

“There is no change between general performance time and performance time after giving formal recognition to the employees”= Rejected

5. Conclusions

Several ways of informal and informal recognition motivate the frontline employees of food and boutique sector of Bangladesh better than the other ways does. The informal recognitions have relationship with both motivation and performance of frontline employees. Formal recognitions do not have any relationship with frontline employee motivation, but it has relationship with frontline employee performance.

The difference between general performance time and performance time after giving informal recognition is 3.43 minute. On the other hand, the difference between general performance time and performance time after giving formal recognition is 1.19 minute. Both informal and formal recognition increases their time efficiency by decreasing performance time. But informal recognition decreases their performance time than that of formal recognition.

This is possibly one of the pioneering study in the field of examining impact of informal and formal recognition in the SME sector of Dhaka City. The analytical approach of this paper in selection of variables for the study involves rigorous procedure which was not found in previous works. A major contribution of this paper might be the finding that informal recognition has more likelihood of having effect on motivation compared to that of formal recognition. This study also appears to be a timely study considering the practical significance of SMEs and the issue of productivity improvement in the SME sector of Bangladesh.

Nevertheless, this study was considerably limited by the sample sizes selected which might restrict the range of viability of the study results. This limitation could not be overcome due to financial and time constraints. Future studies might attempt to overcome this limitation and come up with more insightful results. Another limitation of the study has been caused by lack of secondary data against which the findings of this study could have been compared.

Training of SME owners and supervisors in using recognition to motivate employees could result in a significant savings for the SMEs in their struggle for quality with highly constrained financial resources. Therefore, there is ample opportunity and justification for conducting researches in the area of investigating effectiveness of recognition in increasing motivation and performance in the SME sector of Bangladesh.

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