Effect of Financial Incentives on Employee Performance in Nepalese Commercial Bank

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Abstract

The study examines the effect of financial incentives on employee performance in Nepalese commercial bank. Employee performance is selected as the dependent variables. Similarly, the selected independent variables are bonus, retirement benefit, stock option, salary and employee welfare benefit. The primary source of data is used to assess the opinions of respondents regarding bonus, retirement benefit, stock option, salary and employee welfare benefit on employee performance in Nepalese commercial bank. The study is based on primary data of 120 respondents. To achieve the purpose of the study, structured questionnaire is prepared. The correlation and multiple regression models are estimated to test the significance and effect of financial incentives on employee performance in Nepalese commercial bank.

The study showed that bonus is positively correlated to employee performance working at bank. It indicates that bonus leads to an increase in performance of employees. Likewise, retirement benefit is positively correlated to performance of employees working at bank. It indicates that retirement benefit has a positive impact on performance of employees. Further, stock option is positively correlated to performance of employees working in bank. It indicates that stock option leads to an increase in performance of employees. Additionally, salary and employee welfare benefit also demonstrate positive correlations with employee's performance working at bank, indicating higher the salary and employee welfare benefit, higher will be the employee performance.

Keywords: bonus, retirement benefit, stock option, salary and employee welfare benefit, employee performance

1. Introduction

A financial incentive is a monetary benefit that is paid by a company to motivate employees or to encourage a specific action or behavior where incentives can take various forms such as cash bonuses, discounts, profit-sharing arrangements or stock options. It can be defined as the program aimed at improvement of individual's performance via financial bonuses. According to Saleem, (2011), financial incentives and rewards make continuation of the employment relationship because it creates the basis for high levels of commitment so, firms must develop strategies that include financial incentives and rewards for example promotion, bonus, profit sharing or gain sharing and employees stock ownership etc. Hasibuan (2017) defined financial incentives as additional remuneration given to certain employees whose performance is above work performance where incentive wage is a tool used to support the principle of fairness in providing compensation.

Wickramasinghe and Dabere (2012) studied the effect of performance based financial incentives on work performance. The study revealed that well-designed and carefully implemented incentive schemes have significant positive impact on work performance. Chepkemoi (2018) assessed on the effect of incentives on employee performance. The study concluded that incentives has led to involvement of employees in decision making, reduced employee turnover, put more emphasis on the new values of teamwork and co-operation, increased efficiency and improve customer service, employee satisfaction, attainment of targets and goals and finally improves organizational image. Nazir *et al*. (2015) examined about financial rewards climate and its impact on employee attitudes towards job satisfaction in the retail organizations. The findings of the study showed that financial rewards caused positive job satisfaction of employees and boosted their commitment and increased the

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output of the organization.

Elqadri *et al.* (2015) examined the effect of leadership style, motivation, and giving incentives on the performance of employees. The findings of the study showed that the motivation of employees should be increased, giving rise to a new spirit in carrying out their duties that will have an impact on employee performance. Saleem (2011) investigated the impact of financial incentives on employee's commitment. The study showed positive and significant association between financial incentives and employee commitment. Rahmadi and Partiwi (2021) examined on the effect of financial incentives, organizational commitment and job satisfaction on employee performance. The study revealed that the financial incentives and job satisfaction have positive and significant effect to employee performance while organizational commitment not having significant effect to employee performance.

Alnsour and Kanaan (2021) studied the effects of financial and non-financial incentives on job tenure. The study concluded that the more incentives is given to the academics, the more job tenure is increased. Ude and Coker (2012) studied the incentives schemes, employee motivation and productivity. The study showed that incentive schemes, if properly designed and administered, do motivate employees and increase their productivity in organizations.

Park and Kim (2023) assessed the differential effects of autonomy on employee satisfaction and organizational performance depending on the type of financial incentives. The results showed that the individual incentives and group incentives exert differential impacts on the effects of an autonomy-supportive climate on employee satisfaction and organizational performance. Kushwaha (2018) studied the impact of financial and non-financial incentives on employee productivity. The study showed that the financial incentives are imperative for improving the productivity of employee in a developing country like India where the cost of living is so high but at the same time, the importance of non-financial incentives cannot be overlooked.

Abubakar *et al.* (2020) investigated the effect of financial and non-financial incentives on staff performance. The study concluded that when management pays attention to employees' financial and non-financial challenges, it will result to overall benefits of the organization. Shah *et al.* (2021) investigated the effect of financial and moral incentives on job satisfaction of teachers. The finding of the study showed the practical guidance for top management of higher education institutes to increase job satisfaction and devise attractive incentives policy for teachers. Ogunmakin (2023) investigated the effect of financial incentives on employee morale and motivation of small and medium scale enterprises in Ekiti State. The findings showed that the financial incentives like merit pay and bonuses, among others, should be provided to attract, retain and motivate employees for better performance. Sahibzada and Pandaya (2023) examined the effect of financial incentives on job satisfaction of lectures. The study also showed that fringe benefits do not have significant positive impact on job satisfaction but bonus and retirement benefit has positive impact on job satisfaction.

Tumwet and Chepkilot (2015) examined the effects of employee incentives on employee performance in private universities in Kenya. The study concluded that the financial incentives that are perceived to have significant influence on employee motivation include: salary, insurance financing, retirement benefits, and performance based rewards, holiday, overtime pay, and loan entitlement. Peterson and Luthans (2006) estimated the impact of financial and non-financial incentives on business unit outcomes over time. The study concluded that financial incentive initially has a greater effect on all 3 outcomes, but over time, the financial and non-financial incentives has an equally significant impact except in terms of employee turnover.

Al-Belushi and Khan (2017) studied the impact of monetary incentives on employee motivation. The study showed that the monetary incentives have a direct impact on employees' motivation and the attractive financial incentive will boost most of them to work hard. Achie and Kurah (2016) investigated the role of financial incentives as a motivator in employees' productivity in Nigeria Electricity Distribution Companies. The findings of the study showed that the reason why most organizations experienced low productivity is due to the absence of motivational factors to employees with the financial incentives as major factors.

In the context of Nepal, Ghimire *et al.* (2023) assessed the employee performance factors in the Nepalese commercial banks. The findings of the study indicated that organizational culture had the most significant influence on the employee performance of the NCBs. Sharma (2021) conducted research to study the role of financial and non-financial incentives on employee performance in NIC Asia Bank and Global IME Bank. The findings revealed that employee performance contributes directly to the performance of the company and the influence of financial and non-financial incentives have a pivotal role into it. Silwal (2021) focused on examining the impact of rewards on employee job satisfaction in Nepalese commercial banks. The study concluded that private organization workers were more satisfied with extrinsic rewards than intrinsic rewards.

Thapa *et al*. (2017) examined the determinants of employee performance in commercials banks of Nepal. The findings of the study showed that work life balance, incentives and reward, work environment, etc. have significant relationship between commercial banks and employee performance. Gautam (2019) studied about comprehensive reward system, employee motivation and turnover intention. The study revealed that compensation, benefits, work-life balance, performance recognition and empowerment and career opportunity were the major factors as the components of comprehensive reward system. Pokharel and Shrestha (2022) studied about employees' views towards retirement scheme in development bank in Nepal. The study concluded that the employee views are positive toward the EPF of Nepal.

The above discussion shows that empirical evidences vary greatly across the studies on the effect of financial incentives on employee performance in commercial bank. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of the study is to determine the effect of financial incentives on employee performance in Nepalese commercial bank. More specifically, it examines the relationship of bonus, retirement benefit, stock option, salary and employee welfare benefit with the employee's performance in Nepalese commercial bank.

The remainder of this study is organized as follows: Section two describes the sample, data and methodology. Section three presents the empirical results and final section draws the conclusion.

2. Methodological aspects

The study is based on primary data. The data were gathered from 120 respondents through the questionnaire. The respondents' views were collected on bonus, retirement benefit, stock option, salary and employee welfare benefit at Nepalese commercial bank. This study is based on descriptive as well as causal comparative research designs.

The model

The model estimated in this study assumes that the employee performance at banks depends on financial incentives. The dependent variables selected for the study is employee performance. Similarly, the selected independent variables are bonus, retirement benefit, stock option, salary and employee welfare benefit. Therefore, the models take the following forms:

$EP = \beta_0 + \beta_1 BO + \beta_2 RE + \beta_3 SO + \beta_4 S + \beta_5 EWB + e$

Where,

BO = Bonus

RE = Retirement benefit

SO = Stock option

S = Salary

EWB = Employee welfare benefit

EP = Employee performance

Bonus was measured using a 5-point Likert scale where respondents were asked to indicate the responses using 1 for strongly agree and 5 for strongly disagree. There are 5 items and sample items include "The bonus structure in our bank significantly influences my motivation to perform better at work.", "Employees tend to perform better when they receive bonus." and so on. The reliability of the items was measured by computing the Cronbach's alpha (α = 0.814).

Retirement benefit was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly agree and 5 for strongly disagree. There are 5 items and sample items include "The quality of retirement benefits motivates me to perform better.", "Long term commitment and dedication to my work is shaped by the retirement benefits I receive." and so on. The reliability of the items was measured by computing the Cronbach's alpha (α = 0.800).

Stock option was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly agree and 5 for strongly disagree. There are 5 items and sample items include "The more stocks I get, the more satisfied I am with my work.", "Getting stocks as reward encourages productivity." and so on. The reliability of the items was measured by computing the Cronbach's alpha (α = 0.804).

Salary was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly agree and 5 for strongly disagree. There are 5 items and sample items include "With increase in salary, the productivity of employees also increases.", "Salary motivates employees to perform better." and so on. The reliability of the items was measured by computing the Cronbach's alpha (α = 0.843).

Employee welfare benefit was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly agree and 5 for strongly disagree. There are 5 items and sample items include "Employee welfare benefits helps to keep positive attitude towards work.", "The benefits act as the main factor for their long-term commitment." and so on. The reliability of the items was measured by computing the Cronbach's alpha (α = 0.811).

Employee performance was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly agree and 5 for strongly disagree. There are 5 items and sample items include "Financial incentives (e.g.: bonus, employee welfare benefits, etc.) significantly improves employee performance.", "Employees tends to perform better when offered attractive financial incentives." and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.811$).

The following section describes the independent variables used in this study along with the hypothesis formulation.

Bonus

Cash bonus is another form of reward that organizations use to reward employees for exemplary performance that is if they have performed higher or exceed their set targets, this hence makes them eligible (Finkle, 2011). He found that the employees who receive a large bonus will likely want to give their best performance to receive the bonus next time too. Han and Shen (2007) revealed that the bonus systems undoubtedly have the capability of attracting talented employees to join such organizations and motivating them to exert greater efforts toward boosting the productivity of the firms showing the positive relationship between bonus and employees' satisfaction. Whitford (2006) found that giving bonus to employees produces positive result. Lazear and Rosen (1981) revealed that there is a positive relationship between bonus and employee satisfaction. Based on it, this study develops the following hypothesis:

H_1: There is positive relationship between bonus and employee performance.

Retirement benefit

Asyik (2006) defined employee stock option plan as a form of compensation given to employees, especially executive employees, to reward executives for the company's long-term performance. Yeni (2019) revealed that the existence of a stock ownership program by these employees, will motivate employees to improve the quality of their performance. Asyik (2021) found that stock-based compensation impacts the effect of structural capital (HE) on financial performance and the organizational structure is increasingly optimal with the implemented stock compensation system. Ding (2001) showed that there is positive relationship between stock option and employee performance. Blasi *et al.* (2008) revealed that the availability of stock option motivates employees to increase their performance productivity. Based on it, this study develops following hypothesis:

H_2: There is positive relationship between retirement benefit and employee performance.

Stock option

Yeni (2019) revealed that the existence of a stock ownership program by these employees, will motivate employees to improve the quality of their performance. Asyik (2021) found that stock-based compensation impacts the effect of structural capital (HE) on financial performance and the organizational structure is increasingly optimal with the implemented stock compensation system. Ding (2001) showed that there is positive relationship between stock option and employee performance. Blasi *et al.* (2008) revealed that the availability of stock option motivates employees to increase their performance productivity. Based on it, this study develops following hypothesis:

H_3: There is positive relationship between stock option and employee performance.

Salary

Lazear (1986) revealed that salary directly impact the workers performance creating the output through pay and workers are able to give more pay structure according to the performance. Nagaraju (2017) concluded that salary, rewards have positive impact on employee performance. Research result of by Ghazanfar *et al.* (2011) showed that satisfaction with salary has strong and significant effect on work motivation and performance. Nawab and Bhatti (2011) found that employee compensation i.e., salary positively and significantly affect on employee performance and organizational commitment. Zhang *et al.* (2007) found positive and significant relationship between salary and employee performance. Based on it, this study develops following hypothesis:

H_4: There is positive relationship between salary and employee performance.

Employee welfare benefit

Employee welfare entails all those activities of employer, which are directed towards providing the employees with certain facilities and done towards the comfort and improvement of employees (Keitany, 2014). Olatunji (2004) found that life insurance, attractive salary package, and regular promotion are the main factors influencing workers to exhibit high commitment in their assigned activities. Levine (1992) revealed that the employee welfare is particularly crucial to drive employee engagement which ultimately translates into higher performance and enhanced shareholders' values. Mas (2006) found that increasing employee welfare benefits can increase employees' enthusiasm for work and create higher corporate value. Based on it, this study develops following hypothesis:

H_5: There is positive relationship between employee welfare benefit and employee performance.

3. Results and discussion

Correlation analysis

On analysis of data, correlation analysis has been undertaken first and for this purpose, Kendall's Tau correlation coefficients along with means and standard deviations have been computed, and the results are presented in Table 1.

Table 1

Kendall's Tau correlation coefficients matrix

This table presents Kendall's Tau correlation coefficients between dependent variable and independent variables. The correlation coefficients are based on 163 observations. The dependent variable is EP (Employee). The independent variables are B (Bonus), RE (Retirement Benefit), SO (Stock Option), S (Salary) and EWB (Employee Welfare Benefit).

Variables	Mean	S.D.	EP	BO	RB	SO	S	EWB
EP	3.868	0.798	1					
BO	4.063	0.694	0.409**	1				
RB	3.841	0.711	0.343**	0.532**	1			
SO	3.865	0.720	0.326**	0.531**	0.586**	1		
S	3.958	0.735	0.416**	0.499**	0.488**	0.442**	1	
EWB	3.995	0.762	0.502**	0.490**	0.478**	0.447**	0.498**	1

Notes: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.

Table 1 shows Kendall's Tau correlation coefficients between the variables. The study shows that bonus is positively correlated to employee performance. This means that higher the level of bonus, higher would be the employee performance. Similarly, the retirement benefit is positively related to employee performance indicating that higher the level of retirement benefit, higher would be the employee performance. Likewise, stock option has positive relationship with employee performance. It shows that stock option leads to an increase in the employee performance. Similarly, salary has positive relationship with employee performance. It reveals that higher the amount of salary, higher would-be employee performance. The result shows that there is positive relationship between employee welfare benefit and employee performance. It shows that an increase in the employee welfare benefit leads to the increase in the employee performance.

Regression analysis

Having analyzed the Kendall's Tau correlation coefficients matrix, the regression analysis has been carried out and the results are presented in Table 2. More specifically, it presents the regression results of bonus, retirement benefit, stock option, salary and employee welfare benefit on employee performance in Nepalese commercial bank.

Table 2

Estimated regression results of bonus, retirement benefit, stock option, salary and employee welfare benefit on the effect of financial incentives on employee performance in Nepalese commercial bank

The results are based on 120 observations using linear regression model. The model is OP= $\beta_0 + \beta_1$ B+ β_2 RB+ β_3 SO + β_4 S + β_5 EWB + ε, where the dependent variable is EP (Employee performance). The independent variables are B (Bonus), RB (Retirement benefit), SO (Stock option), S (Salary) and EWB (Employee welfare benefit)

Model	Intercept	Regression coefficients of					Adj. R_bar^2	SEE	F-value
		BO	RB	SO	S	EWB			
1	1.243 (8.084)	0.351 (5.002) **					0.168	0.57074	25.017
2	1.396 (8.448) **		0.261 (3.655) **				0.94	0.595	13.358
3	1.254 (7.456) **			0.335 (4.461) **			0.137	0.581	19.904
4	1.170 (7.915) **				0.396 (5.744) **		0.212	0.555	32.989
5	0.811 (5.940) **					0.555 (8.943) **	0.399	0.485	79.978
6	1.242 (7.481) **	0.350 (3.223) **	0.001 (0.012) **				0.161	0.5732	12.403
7	1.184 (6.849) **	0.286 (2.363) **	-0.064 (-0.535) **	0.157 (1.203) **			0.164	0.572	8.783
8	1.120 (6.601) *	0.139 (1.079)	-0.135 (-1.139) **	0.098 (0.766) **	0.321 (2.772) **		0.210	0.556	8.888
9	0.851 (5.528)	-0.023 (-0.203)	-0.198 (-1.915) *	0.077 (0.693)	0.122 (1.151) **	0.571 (6.159) **	0.402	0.484	16.979

Note:

1. Figures in parenthesis are t-values.
2. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
3. Employee performance is the dependent variable.

Table 2 shows that the beta coefficients for bonus are positive with employee performance. It indicates bonus has a positive impact on employee performance. This finding is similar with the findings of Finkle (2011). On the other hand, the result shows that the beta coefficients for retirement benefit are positive with employee performance. It reveals that retirement benefit has a positive impact on employee performance. This finding is similar to the findings of Jean et al. (2017). Similarly, the beta coefficients for stock option are positive with employee performance. It indicates that stock option has positive impact on employee performance. This finding is similar to the finding of Asyik (2011). It is significant at 1 and 5 percent level of significance. The result also reveals that the beta coefficients for salary are positive with employee performance. It reveals that salary has positive impact on employee performance. The result is significant at 1 and 5 percent level of significance. Likewise, the positive beta coefficients of employee welfare benefit denote that employee welfare benefit has positive impact on employee performance. This finding is consistent with the findings Mas (2006).

4. Summary and conclusion

Financial incentives such as bonus, salary, retirement benefit, etc. encourages them to perform better and make continuation of the employment relationship by creating the basis for high levels of commitment. Effective incentive systems not only improve immediate performance but also contribute to long-term organizational success by enhancing job satisfaction and retention. Employees are more likely to stay with organizations that recognize and reward their efforts financially, which in turn fosters a positive work environment and promotes sustained high performance. Thus, financial incentives significantly impact employee's motivation, performance and commitment in an organization.

This study attempts to examine the effect of financial incentives on employee performance in Nepalese commercial bank. The study is based on primary sources of data with 120 respondents.

The study on the effect of financial incentives on employee performance in Nepalese commercial bank reveals that employee performance is influenced by several factors. Bonus, retirement benefit, stock option, salary and employee welfare benefit all show a positive correlation with the dependent variable. This indicates that as more amount of bonus and salary is given, higher level of retirement benefit, stock option and employee welfare benefit is facilitated the more positively employees are encouraged. The findings suggest that enhancing these aspects could further improve the performance of employees in Nepalese commercial banks.

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