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IMPACT OF FINANCIAL INCENTIVES ON EMPLOYEES PERFORMANCE:  
A CASE STUDY OF NATIONAL BANK OF PAKISTAN (NBP) 2004-2015

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**ABSTRACT**

*The main objective of this study was to investigate the relationship between financial incentives and employees performance as well as to know the magnitude of impact of each of the offered financial incentives on the performance of employees. The research includes primary and secondary data sources. Primary data was collected through closed ended questionnaire which was prepared through five points Likert Scale. Using simple random sampling method one hundred questionnaires were distributed among employees work in National Bank of Pakistan. National Bank of Pakistan is one of the largest financial institutes in the country which has domestic and foreign branches and large pool of employees work since long time. Secondary data was collected through published records, annual reports and other published material of the bank. In order to know the internal consistency among items used in questionnaire, cronbach alpha was used and the results of all independent and dependent variables' items were significant and internally consistent. Data was analyzed using multiple regression technique with the help of software i.e. statistical packages for social sciences (SPSS). The data analysis results of multiple regression confirmed that independent variables i.e. salary, bonus, promotion, group insurance, medical allowance and interest free loans have significant impact on dependent variable i.e. employees performance. The research studies concluded that financial incentives offered by National Bank have significant impact on their employees performances.*

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**Keywords:** Financial Incentives, Employees Performance, Rewards, Financial Institute, Significant.

**INTRODUCTION**

All organizations whether small or large strive to achieve their long term objectives and they believe that effective achievement of objectives depends on the employment and retention of skilled human capital. These employees act as potential source in contributing efforts to achieve objectives therefore organizations must spur their efforts and motivate them so they can give their best which eventually drive organizations

towards success. In human behavior it is studied that all humans have basic drives to do something and are unaware about urges which lie in their conscious minds and these urges forced employees to act in certain ways. If their urges are suppressed or forbidden, employees may feel exhausted and frustrated which result in their weak performance (Samuel and Joshua, 2016).

Employees are considered as integral part of organization, so managers intend to consider them as important part to shape organizations' strategies. Therefore managers prefer to have proper reward system which can motivate employees to work effectively. In contemporary business environment organizations face a lot of challenges, among those one of the highlighted challenge is to acquire and retain competent and skilled human capital. To achieve the objectives in efficient and effective manner employees are needed to be motivated. Employees will not only perform better but they will give desired results to managers as they believe that managers will reward their efforts in justified manner. Multiple factors in organizations can affect employees' performance i.e., Employer-employee relationship, working conditions, job security, training and opportunities for career development and rewarding system of employees. Among these factors motivating employees through reward system is very important one which can affect employees' performance. The maximum level of workers performance can be judged if employees believe their endeavor will be rewarded (Payam *et.al.*, 2013).

Financial incentives have substantial effect on motivation level of employees therefore it is one of the important functions of organizations to determine which type of incentives employees like to receive. Financial incentives such as premiums, raise in salaries, payment packages and economic rewards etc are paid to employees for performing better. The main objective of providing these benefits is to establish a fair management structure in which employees can be motivated, as they are considered as social being, so their productivity can be increased to achieve organizational objectives. Financial incentives provide short term effect on the motivation level of employees although these incentives are imperative for motivation. Non financial incentives also motivate employees to perform better, some of these incentives include making employees authoritative, ensure their participation in management, job enrichment and holidays etc have long term impact on motivation level of employees (Ali and Tugay, 2012).

**RESEARCH OBJECTIVES**

- To investigate the relationship between financial incentives and employees performance at National Bank of Pakistan.
- To study different types of financial incentives and their criteria provided by National Bank to its employees.
- To analyze the impact of each of these incentives on the performance of NBP employees.

**RESEARCH HYPOTHESIS**

H1:- Financial incentives are related with employees' performance.

H2:- Financial incentives provide by NBP are on equitable basis.

H3:- Each incentive offered by NBP has significant impact on employees performance.

**LITERATURE REVIEW**

Wickramasinghe and Dabere (2012) studied Effects of performance based financial incentives on work performance. It was hypothesized that performance based financial incentives affect on individual work performance. For the survey ninety three technical level employees were selected who had been working in selected firms for two years. Regression analysis was used to analyze the surveyed data and results shown that design features of performance based financial incentives affect 51% on work performance of employees. Study investigated the effect and concluded that effectively designed and carefully implemented incentive schemes can affect on work performance.

Samuel & Joshua (2016) conducted research on: The role of financial incentives as a motivator in employee's productivity. The aim of their research was to study the extent of financial incentives used by Yola electricity Distribution Company to improve productivity of their employees as well as to assess the manner in which financial incentives are carried out successfully in the company. The data was collected from employees of the Yola electricity distribution company. Total numbers of employees in company were 55 and using stratified random sampling technique 45 employees were selected as sample to study. Out of 45 staff, ten employees were selected from management, fifteen intermediate and remaining twenty were junior staff. Both primary and secondary data sources were used, primary data was collected through questionnaire and personal interviews. Data was analyzed using chi square and frequency distribution. The results of data analysis concluded that financial incentives highly motivate employees of Yola electricity Distribution

Company, salaries and other benefits in reward system of company make them very happy to work.

Ali and Tugay (2012) studied the financial and non-financial incentives on job satisfaction with the main purpose of determining the effect of these incentives on satisfaction level of employees in their jobs. The effect of financial and non financial incentives analyzed for the employees who work in food chain premises. The data was collected through closed ended questionnaire which was prepared and distributed among four hundred and thirty two persons who work in eleven food chain premises. The questionnaire prepared was closed ended comprised of five points likert scale range from strongly agree to strongly disagree.

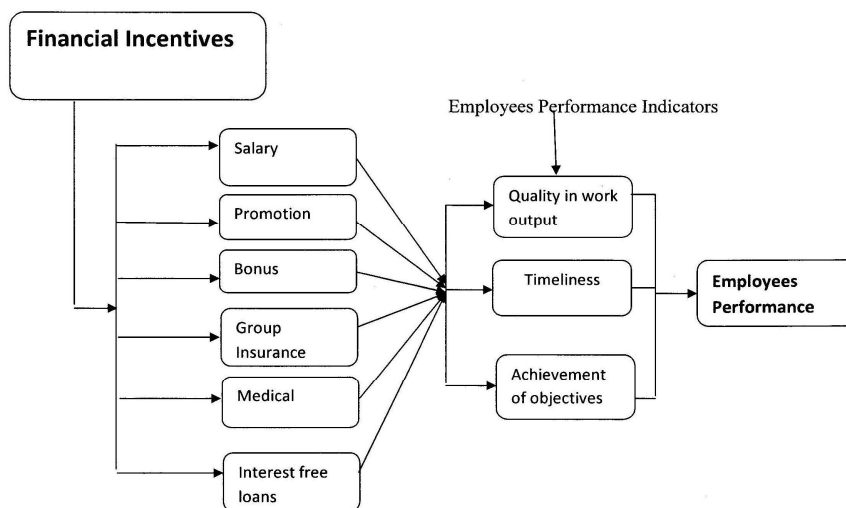
Data was analyzed with the help of SPSS using techniques like correlation analysis and independent sample T test. The results stated that financial incentives offered by food chain premises increases job satisfaction of employees. However as compare to non financial incentives the financial incentives provide less satisfaction therefore food chain premises were suggested to revise their incentives.

In addition to study financial incentives and their impact on employee's performance, Othman and Khaldoun (2015) did research to investigate the impact of financial and moral incentives on employees performance in academic libraries of Jordan. For the data collection, out of twenty four public and private universities as total population, ten universities were selected, five public and five private, as sample size. The librarians in these universities were selected as target population, these librarians qualified from diploma level to PhD level. The primary data was collected through closed ended questionnaire prepared through likert scale. Questionnaire was distributed among five hundred librarians serve in these universities and four hundred twenty questionnaires were returned by the respondents. The collected data was analyzed with the help of Statistical Packages for Social Sciences (SPSS) and techniques of data analysis include frequencies, percentages, standard deviation and multiple regression were used. The results of the analysis concluded that there was a strong relationship between financial and moral incentives with employees' performance. Analysis further added that financial incentives stood first and moral incentives stood second, in addition Jordanian universities provide adequate level of incentives to their employees.

Kaneez and Fatima (2016) did research on incentives with the main objective of identifying and analyzing the impact of these motivational incentives on the performance of employees. Using simple random

sampling method fifteen different commercial banks were chosen in which total number of employees were 512 out of which 154 were selected as sample. Primary data was collected through closed ended questionnaire and data was analyzed using statistical technique i.e., pearson chi square test with the help of software, statistical packages for social sciences. The results confirm the significant impact of motivational incentives on the performance of employees. The motivational incentives not only increase the performance level of employees but also increase their loyalty and commitment with the organization. Employees were motivated not only from financial but also non financial incentives and attractive reward structure also decrease employees turnover in the banks.

#### CONCEPTUAL FRAMEWORK



This research was conducted to know the impact of financial incentives on employee's performance in National bank of Pakistan. Both types of data i-e primary and secondary data were collected. Primary data was collected through closed ended questionnaire which was adopted and modified. Questionnaire was designed using five points Likert scale varies from strongly disagree to strongly agree. One hundred questionnaires were distributed among senior employees of head office as well as from branches of Karachi, Hyderabad and Larkana division of Sindh province. National Bank of Pakistan is a premier financial institute and largest commercial bank of Pakistan. Questionnaires filled and responded by senior employees of bank serving as Vice President, Assistant Vice president, Regional heads, as well as OG-I to OG-III.

### DATA ANALYSIS

Data was analyzed using chronbach alpha and linear regression techniques with the help of Statistical packages for social sciences, SPSS software. Chronbach alpha was used to see the internal consistency among items included in the questionnaire. Rule of thumb for chronbach alpha is 0.7 or above is acceptable, 0.8 shows good and 0.9 shows excellent result and indicates that items used in questionnaire and responses given by respondents are internally consistent and the instrument is reliable (Wikipedia, 2017). Researcher used thirty questionnaires to see if items used in the questionnaire are internally consistent or not. Results of the chronbach alpha are discussed below:

**TABLE-1.1**  
**RESULTS OF CHRONBACH ALPHA**

S.No#	Financial Incentives & Employees Performance	Result
1	Salary	0.711
2	Promotion	0.780
3	Bonus	0.908
4	Group Insurance	0.806
5	Medical Allowance	0.816
6	Interest Free Loans	0.811
7	Employees Performance	0.756

### DISCUSSION OF RESULTS

**Salary:** In the above table results for chronbach alpha are given. Salary is a financial incentive in which four items were included to collect the responses of respondents. The internal consistency among these items is acceptable and the result shown 0.711 means 71% and rule of thumb for chronbach alpha at 70% is acceptable. Therefore the responses collected for items used in the first financial incentive i-e salary are internally consistent.

**Promotion:** Promotion is another financial incentive which is used as financial incentive includes four items to collect responses of respondents. The internal consistency among these items is acceptable and the result shown 0.780 means 78% and rule of thumb for chronbach alpha at 78% is acceptable. Therefore the responses collected for items used in the financial incentive i.e. Promotion are internally consistent.

**Bonus:** Bonus is another financial incentive in which four items were included to collect the responses of respondents. The internal

consistency among these items is acceptable and the result shown 0.908 means 90% and the rule of thumb for cronbach alpha at 90% is excellent. Therefore the responses collected for items used in financial incentive i-e Bonus are internally consistent.

**Group Insurance:** Group insurance is another financial incentive in which four items were included to collect the responses of respondents. The internal consistency among these items is acceptable and the result shown 0.806 means 80% and the rule of thumb for cronbach alpha at 80% is good. Therefore the responses collected for items used in financial incentive i-e Group insurance are internally consistent.

**Medical Allowance:** Medical allowance is another financial incentive in which four items were included to collect the responses of respondents. The internal consistency among these items is acceptable and the result shown 0.816 means 81% and the rule of thumb for cronbach alpha at 81% is good. Therefore the responses collected for items used in financial incentive i-e Medical allowance are internally consistent.

**Interest Free Loans:** An Interest free loan is another financial incentive in which four items were included to collect the responses of respondents. The internal consistency among these items is acceptable and the result shown 0.811 means 81% and the rule of thumb for cronbach alpha at 81% is good. Therefore the responses collected for items used in financial incentive i.e. Interest free loan are internally consistent.

**Employees Performance:** Employees performance is dependent variable for which ten items were included in questionnaire. The internal consistency among these items is acceptable and the result shown 0.756 means 75% and the rule of thumb for cronbach alpha at 75% is acceptable. Therefore the responses collected for dependent variable i-e employee's performance are internally consistent.

**Multiple Regressions:** After confirming the internal consistency of items used in questionnaire through cronbach alpha, the primary data was analyzed through multiple regression analysis. Multiple regressions is a statistical tool that is used when many independent variables affect one dependent variable. It is used to see how and at what extent each independent variable affects dependent variable. Using multiple regression analysis we can know more accurate predictions about why and how each variable affect other variable (Jim, 2005).

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics F Change	df1	df2	Sig. F Change
1	.919 <sup>a</sup>	.844	.835	.06835	.844	101.511	5	94	.000

a. Predictors: (Constant), Interest free loans as financial incentive, salary as financial incentive, Medical allowance as financial incentive, Group insurance as financial incentive, Promotion as financial incentive

In the above table R square value is 0.835 which indicates that financial incentives affect the performance of employees by 83.5%. R square is the proportion of variance in the dependent variable explained by the independent variable. It is determined after analysis that performance of employees is affected by the financial incentives offered by NBP to its employees. Salary, Promotion, Bonus, Group insurance, Medical allowance and interest free loans affect the performance of employees.

**TABLE 1.3**  
**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.371	5	.474	101.511	.000 <sup>b</sup>
	Residual	.439	94	.005		
	Total	2.810	99			

a. Dependent Variable: Employees Performance

b. Predictors: (Constant), Interest free loans as financial incentive, salary as financial incentive, Medical allowance as financial incentive, Group insurance as financial incentive, Promotion as financial incentive

In the above table, significance p value is 0.000 which is less than 0.05, it means null hypothesis is rejected and alternate hypothesis is accepted. It indicates that independent variables or financial incentives have substantial impact on dependent variable i.e. employees performance. Significant F value is 101.51 which is greater than 5 shows significance of relationship.

Multiple regression analysis results confirm the acceptance of alternate hypothesis and rejected null hypothesis. Financial incentives offered by NBP to its employees include salary, bonus, promotion, group insurance, medical allowance and interest free loans are related with

employees performance and each of the incentives have significant impact on employees performance. Employees are motivated to perform better as their employer NBP rewards their efforts by paying these incentives timely and on equitable basis.

### **CONCLUSION**

Financial incentives are important elements in improving the performance of employees in financial sector of Pakistan. National Bank of Pakistan is a largest premier financial public sector institute which has country wide network of branches as well as foreign branches with thousands of employees working for decades. In twenty first century to attract and retain competent workforce or human capital has been challenging and organizations need to reward employees which motivate them to stay committed with employers and their prolong stay as committed employees indicate their better performance. It was explored that financial incentives offered by NBP are related with employees performance means incentives drive performance of employees in commercial banks. Data analysis justified the significant impact of Salary, Promotion, Bonus, Group insurance, Medical allowance and Interest free loans on employees' performance. Employees perform better with the expectation that NBP management rewards them with handsome salary, timely promotion, provision of yearly bonus on outstanding performance, Medical allowance for which employees believe their employer financially support them in difficult times or when they indulge in serious health issues, they are also rewarded with interest free loans means employees personal problems can be resolved because bank finance them loans with no charges and likewise group insurance to meet any uncertain situations. These financial incentives motivate employees of NBP to work more and contribute efforts which lead bank to become most profitable and largest financial institute of country.

### **LIMITATIONS**

The undertaken research study focused on analysis of the impact of financial incentives on employees' performance in National bank of Pakistan. The research does not cover the study of financial incentives and their impact on employees' performance in private banks of Pakistan. However, this search has indentified new ideas for future researcher to conduct on comparative study of private and public banks to know employees opinion and views on financial rewards offered by their employers and impact of these incentives on their performances.

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