Effects of Incentives on Employees Productivity

Dr. Cross Ogohi Daniel
Departments of Public Administration/ Banking and Finance,
Nile University of Nigeria,
Abuja, Nigeria

Abstract — The study investigates the effects of incentives on employee’s productivity. The study had the following objectives: The relationship between incentive and productivity of employee’s in organisations, to determine the influence of employee’s productivity incentives on employee productivity in the organization, to analyze the link between incentive and employee productivity in organizations in Nigeria. To achieve these goals, a questionnaire was designed based on the objectives. The completed questionnaires were processed and analyzed using Pearson Product Moment Correlation Coefficient. The findings of this study revealed that there was a positive relationship between incentives and productivity, alongside monetary incentives, another key factor in motivating employees is to involve them in the process aimed at attaining organizational effectiveness because without their co-operation the organization cannot perform. The study recommends the establishment of a unit to look at issues of incentives that will enhance productivity

Keywords – Incentives, Motivation, Commitment, employee and Productivity

I. INTRODUCTION

Every person has his own wants and desires, for that purpose he/she works to get fulfill them. It is not enough for an employee to be satisfied materially but non material aspects are as essential as material aspects, an employee need both to be fulfilled. Material means his salary, bonuses, allowances, job security and other facilities. While non-material aspect includes leaves, excellent working environment, good understanding among other fellow workers and top management, all these elements have much to do with motivation of employee.

Employee’s play very important part in the daily operations of any organization especially where the markets are very competitive and have ever-changing environment which is supported by majority of the theorists. The fate of an organization is usually determined by its employee’s so it sounds logical to understand how employees can be motivated. As far as the employee’s motivation is concerned, employee motivational incentive programs have been found to be the most commonly adopted technique among organizations. The purpose of the program is to reward productive employee’s productivity, reinforce positive behaviour and stir interest in employee. Employee’s productivity and how it could it could be enhanced is central to the concern of industries and organizations, therefore many organizational scientists, are very much interested in different schemes and techniques related to employee’s productivity and its growth incentives are one of those techniques used in workplaces to stimulate employee’s in order to get desired employee’s productivity.

Human resource provides basis for an organization to achieve sustainable competitive advantage. Since organizations are operating in a dynamic and competitive business environment, they need to develop strategies to acquire and retain the competent workforce. Human asset is considered to be the most important asset of any organization and in order to get the efficient and effective result from human resource, motivation is necessary (Zaman, 2011). Researchers divide motivation into two categories, intrinsic and extrinsic. Extrinsic motivation comes from external factors such as financial rewards and needs to be refilled at regular intervals not to lose its effect. Intrinsic motivation comes from inside of an individual and is the kind of motivation every organization wishes their employee’s would have (Mundhra, 2010).

Armstrong and Taylor (2010), states that “employee’s productivity” is defined as behavior that accomplishes these results. In light of today’s business conditions especially in the banking industry where CBK has introduced a regulation on interest capping, motivating people to give their best has become more crucial than ever before. To achieve goals and objectives, organizations irrespective of size, develop strategies to compete in highly competitive markets and to increase employee employee’s productivity. The Human Resources Management has a role to hire and come up with retention strategies for the best employee’s, especially the ones holding key roles that can be difficult to replace because of the technical competencies required. Organizations
Effects Of Incentives On Employees Productivity

consider the human capital as being their main asset, capable of leading them to success or if not managed properly can lead to failure of the organization and high staff turnover (Fisher, 2012)

Milton (2013) defines incentives as variable rewards granted according to variations in the achievement of specific results. It is also called a stimulus to greater action. They may be used to incite action or greater effort. An incentive is anything which can be given in addition to wages. Incentives are therefore motivations for work. They could be financial or non-financial rewards. Incentives provide zeal in the employee’s for better employee’s productivity. It is a natural thing that nobody acts without a purpose behind. Therefore, a hope for a reward is a powerful incentive to motivate employees. Besides monetary incentive, there are some other stimuli which include job satisfaction, job security, job promotion, and pride for accomplishment.

Employees occupy a strategic role and position in any organization. They are responsible for converting inputs to productive outcomes. Since they are the key to the productive outputs, they ought to be effectively and adequately compensated for their labour. Taking cues first from the Biblical expression that a labourer deserves his wages, and secondly bearing in mind that the reward for labour, a factor of production is “wages”, it becomes logical that employee’s be adequately and fairly compensated if they are to be motivated to increase productivity in any organization be it the organized private sector or public sector.

Drucker (1980) believes that “the work of management is to make people productive” so as to achieve superior employee’s productivity, and gain a competitive edge in the globalized arena through effective compensation packages. Drucker’s belief is anchored on productivity, employee’s productivity, motivation quality and service in managing people in every organization. This emphasis is often captured in organizational mission statements and goals.

Incentive provides a platform through which firms can motivate their employee’s to improve their employee’s productivity, scholars like Pouliakas, 2008; Pinar 2008; Arnold and Venter, (2007) have all carried out research into monetary and non-monetary incentive and how they affect organizations. Incentive programs are put in place by organizations to reward and compensate exceptional employee’s productivity (Schiller, 1996).

These packages could come in financial or non-financial forms but its objective is to compel the employee to show more efforts in any given task. Incentives are forces that cause employee’s to behave in a certain way on any given day usually as hard as possible. However it is noteworthy that incentives are designed to get maximum employee’s productivity from the employee’s and help retain the most productive and performing employee’s (Arnold, 2013). Organizations must ensure they use the best incentives to get the required result from their employee’s. Incentives are instrumental drive towards employee motivation and employee’s productivity as it has great benefits and high potential to motivate workers to put in their best in any given task (Condly et al. 2003).

Delvecchio and Wagner (2007) observed the effect of different incentives on salespeople and concluded that younger salespeople react more dramatically and positively with higher intrinsic motivation when paid on plans with higher incentive proportion. Ojokuku (2011) also identified the effect of financial incentives on information and communication technology professionals. Profit sharing plans, premium pay and cash bonus are the types of financial benefits enjoyed by these professionals which enhanced their motivation to work.

In the real estate sector, Azasu (2004) identified the various incentives and benefits used in Sweden to include variable pay, asset loan, paid paternity and maternity leave, lunch allowance and travel insurance. The author also noted that training is not popularly used but the firms are willing to give allowance for self-initiated training. Identifying the types of incentives used by employers in estate firms and whether this significantly influences employee’s productivity and firm’s employee’s productivity is the focus of this research. Indications from students and graduates estate management as well as those currently employed in real estate firms is that the pay package is not robust enough and that incentives are almost nonexistent.

II. Statement Of The Problem

Incentives have created a lot of challenges to employee’s input and output in organization. The negligence of adequate structure in pay incentive, fringe incentive, and bonus and over time benefits has caused a lot of inequitable justice on the administration of incentive scheme. The resultant effect on employee productivity could be negative. The negative attributes can be seen as poor turnover, poor product quality improvement, job dissatisfaction, low morale, low commitment, absenteeism, low turnover intentions to stay with the organization and poor employee’s productivity that affects input and output.
Companies are spending huge amounts of money on their reward programs which aim at motivating, retaining, committing and attracting new employees. Despite the great amount of money used in these incentives and rewards, only few of the Human Resource Managers are able to justify and measure whether they are efficient.

III. Objectives Of The Study

These Are the Following Objectives That Lead to Incentives on Employee’s Productivity.

i. To determine the influence of incentives on employee productivity in the organization.

ii. To analyze the link between incentive and employee productivity in organizations in Nigeria.

IV. Research Hypotheses

These are the following hypotheses that will guild the study;

H₂: There are incentives that influence employee’s productivity in the organization.

H₃: There is an incentive that influence and analyze the link between employee productivity and organization performance

V. Methodology

The study was limited to a selected bank in Nigeria with a focus on Guaranty Trust Bank in Abuja. The study targeted Senior Management, Middle Level Management in Abuja branches. From a total of one hundred and fifty eight (158) copies of the questionnaire distributed to the respondents, one hundred and eight (108) copies representing 68.2% were duly completed and returned while fifty (50) copies representing 31.8% were not returned. The questionnaire was designed in Likert scale format. The researchers conducted a pre-test on the questionnaire to ensure the validity of the instrument. Pearson product moment correlation coefficient was used to test the hypotheses.

VI. Literature Review

6.1 Conceptual Framework of Incentives

The term “incentives”, “Rewards”, and “Recognition” are used interchangeably in the organization setting and there is no broader difference among them. However, the main category is the incentives. Meridith (2015) defines incentives as any source or medium that encourages an employee or group of employee’s to perform better and to exert more effort beyond expectations. Basically incentives are divided into two main groups: Financial incentives and non-financial. Financial incentives include direct payment of cash while non-financial incentives may be in the form of promotion of employee’s, flexible time, autonomy and involvement in decision making.

Hartman, Kurtzand and Moser (1994) state that incentives are one technique by which employee’s” carry out their end of the employment contract, that is, compensating employee’s for their efforts. In general, an incentive scheme (payment or programme) is any compensation that has been designed to recognize some specific accomplishment on the part of an employee. It is expected that the prospect of the incentive payment will “trigger” the desired employee’s productivity behaviour in the employee.

Incentives are either individual or group (organization wide). In this study, financial incentives are designed to motivate employee’s to improve their employee’s productivity – to increase effort and output and by producing better results expressed in such terms as objectives for profit, productivity, sales turnover, cost reduction, quality customer service and on time delivery. This financial compensation provides extra money for achievement in terms of contribution or output. The emphasis in financial compensation is on equity, in the sense of paying people according to their just "deserts”. Incentive schemes relate compensation to productivity.

A primary purpose of an incentive scheme is to encourage greater productivity from individuals and work groups. The assumption usually made by management is that money or cash alone may not motivate employees. In designing incentive schemes, output standards should be established. The standard is a measure of work that an average, well-trained employee, working at a normal pace, should be able to accomplish in a given period of time. In addition to motivating employee’s to increase their level of productivity, incentive schemes may reduce turnover among good performers or productive workers. Incentive schemes are also cost effective because of savings that often resulted from productivity improvements.

6.2 Employee and Organization Productivity

Productivity is usually defined as the ratio of inputs to outputs. It essentially measure how efficiently production inputs such as labour and capital are being used to produce a given level of output (Krugman, 1994). Okoye and Ezejiofor (2013) opined that organizational productivity is the measure of how well an organization functions
and also an indication of efficiency and competition. Also it is a measure of how well resources are brought together and utilized for accomplishing set objectives (Mali, 2008 in Okoye&Ezejiofor, 2013).

Productivity is a global concern, which has inseparable ties to the longevity of the organization (Arraya, 2013). It is the key for survival in the cut-throat world of business and gives the organization a key competitive advantage above its peers when it is able to do more with less (Arraya, 2013). The baseline for economic productivity of an organization is the strength and quality of human capital. Human capital refers to the skills, abilities, competencies and qualities of an organization’s employee’s. It comprises of the knowledge and expertise employee’s apply to produce products and services and to the operations of the organization, its equipment and machineries (Arraya, 2013). When human capital is adequately motivated, it leads to enhancement in productivity and service delivery.

6.3 Employee’s productivity Incentives

Not all writers agree that incentive programmes will always lead to positive outcome, in fact some go as far as indicating that they can undermine productivity and employee’s productivity. When an employer offers a reward for employee’s productivity, the writers suggested that employee’s begin to perform the task for the external reward rather than for intrinsic reasons. Because of this, perceptions of self-determination is said to decrease. Motivation and quality of employee’s productivity decline too as brought out by (Kohn, 1993, Powell, 1998).

A significant study, based on an extensive meta-analysis of 25 years of earlier research that examined rewards and employee’s productivity, refutes the argument that rewards undermine both motivation and employee’s productivity. This research found that, generally, people enjoy activities or tasks more when they receive a reward and the argument that rewards undermine employee’s productivity and interest is not supported by the experimental data. It concluded that rewards could be used effectively to enhance interest and employee’s productivity (Cameron and Pierce, 1997).

6.4 Employee Productivity

In economics, productivity is the ratio of what is produced to what is required to produce. It is the measure of production efficiency over a given period of time. To the engineer; productivity means new technology, machines and equipment, measurement and controls. To a business manager, productivity has various meanings including effectiveness and efficiency. This is because in management there are no measurable units of output, no productivity function and the non-existence of an effective data base. Agoro (1991) uses the word productivity to mean the output per unit of factor input over a given period of time. It is the ratio between the output of wealth produced and the input of resources consumed in the process of production.

Adekoya (1991), agree emphasizing that productivity is a measure of how well labour resources/skills are brought together in a firm and utilized for accomplishing a set result. Efficiency in production is measured by the ratio of input to output. Efficiency in the utilization of labour in an organization involves obtaining the highest level of employee’s productivity from the employee’s with the least expenditure in labour wages. The International Labour Organization (ILO) as cited in Prokopenko (1992) defined productivity to be the effective and efficient utilization of all resources; capital, labour, material, energy, information and time.

In this paper, Nwasike’s (1991) definition is used, as a working definition. She defined productivity as: „The efficiency with which inputs are used to produce the desired output”. Earlier, Udo-Aka (1983) defined productivity as a measure of overall production efficiency, effectiveness and employee’s productivity of the individual organization.

Akerele (1991) contends that productivity is the “measure of how well a nation”s resources are utilized for accomplishing a set of results…reaching the highest level of employee’s productivity with the least expenditure of resources”. This is a synthesized definition of productivity. Akerele (1991) further maintained that: Productivity is an attitude of the mind. It is the mentality of progress and constant improvement of that which exists. It is the certainty of being able to change that which exists. It is the certainty of being able to do better today than yesterday. It is the will to improve on the present situation, no matter how good it may look. It is the constant adaptations of economic conditions. It is the continued effort to apply new techniques and it is the faith in human capabilities.

From the above, it is clear that the applicability of the productivity concept to every sphere of human endeavour remains constant, the relevance and centrality of productivity to human existence can never be denied. This paper assumes that productivity is effectiveness, efficiency, employee’s productivity and growth. Productivity improvement, in the words of Prokopenko (1998) “is not just doing things better. It is doing the right things better”. Productivity improvement therefore depends on upon how successfully the main factors of socio-production systems that influence productivity are identified and used.

Nworah (1991) had earlier contended that productivity improvement was the increase in output (goods and services) got from a given input by better management and utilization of resources, including human resources. It does not necessary mean getting them to work smarter. Work is generally easier when productivity
improvement takes place. Productivity improvements are obtained through improved product or system design, use of improved machinery and equipment, improved skill and effectiveness of the workers and increased production volume and levels. Productivity improvement is important for this paper because it makes it easier to improve the standard of living of any nation hence its applicability to the Nigerian business situation. Productivity measurement can also be regarded as the quantification of both the output and input resources of a productive system. These outputs and inputs are expressed in mathematical ratio so as to have a quantified monitoring index. Methods of measuring productivity at the company level are the Kurosawa structural method, the Lawler’s method, the Gold method, and the quick productivity method.

Other productivity improvement techniques include the following: work study, method study, work measurement, work simplifications, parents analysis, just-in-time method, management through value analysis, cost benefit analysis, zero-based budgeting, cost-productivity allocation, process, organizational development (OD) processes and techniques, brainstorming, forced field analysis, nominal group techniques, and so on, Mali (1981) and Moss (1982). ILO (1985), Welliegh, (1986).

VII. Test Of Hypotheses

Hypothesis one
H$_1$: There are incentives that influence employee’s productivity in the organization.
H$_0$: There are no incentives that influence employee’s productivity in the organization

Table I: Table of correlation between incentives that influences employee’s productivity and organization

<table>
<thead>
<tr>
<th>Correlations</th>
<th>employee’s productivity</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>employee’s productivity</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>108</td>
</tr>
<tr>
<td>Organisation</td>
<td>Pearson Correlation</td>
<td>.473 **</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>108</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

According to above calculations is observed that amount of correlation coefficient between employee’s productivity and Organisation is equal to 47.3 per cent and considering that a significant level is less than 5%. Then we can say that there is a positive relationship between employee’s productivity and Organisation. This implies that one percent increase in employee’s productivity will lead to 47.3% increase organisational performance.

Table II: Regression analysis test of incentives that influences employee’s productivity and organisation

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>.773 a</td>
<td>.624</td>
<td>.722</td>
<td>3.96426</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), employee’s productivity

Regression coefficient of R = .773 or 77.3% indicate that relationship exist between independent variables and dependent variable. The coefficient of determination R$^2$ = 0.624 which show that 62.4% of variation in organisation is explained by employee’s productivity. The adjusted R-square in the table shows that the dependent variable is affected by 72.2% by independent variable. It shows that there are positive impacts of employee’s productivity and the organisation.
Effects Of Incentives On Employees Productivity

Table III: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>15.036</td>
<td>.806</td>
<td>18.644</td>
<td>.000</td>
</tr>
<tr>
<td>employee’s productivity</td>
<td>1.319</td>
<td>.125</td>
<td>10.520</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Organisation

The coefficient of determination for employee’s productivity is positive (1.319) and is highly significant (0.000) in the Organisation. The p-value of 0.000 is less than the t-statistic value of 10.520 and the standard error value of 0.125. This implies that a unit increase in employee’s productivity will lead to 1.319 increases in the Organisation. Therefore, the null hypothesis is rejected and alternate hypothesis is accepted that there are incentives that influence employee’s productivity in the organization.

Hypothesis two

\( H_3: \) There is an incentive that influence and analyze the link between employee productivity and organizational performance

\( H_0: \) There is no an incentive that influence and analyze the link between employee productivity and organizational performance.

Table IV: Table of correlation between incentives that influences employee’s productivity and organization

**. Correlation is significant at the 0.01 level (2-tailed).

According to above calculations is observed that amount of correlation coefficient on employee productivity and organizational performance is equal to 49.9% and considering that a significant level is less than 5%. Then can say that there is a positive relationship between employee productivity and organizational performance. This implies that one percent decrease in employee productivity will lead to 49.9% increase in organizational performance.

Table V: Regression analysis test of employee productivity and organizational performance

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.899*</td>
<td>.849</td>
<td>.747</td>
<td>3.90132</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), employee productivity
Regression coefficient of R = .899 or 89.9% indicate that relationship exist between independent variables and dependent variable. The coefficient of determination $R^2 = 0.849$ which show that 84.9% of variation in organizational performance is explained by employee productivity. The adjusted R-square in the table shows that the dependent variable, (organizational performance) is affected by 74.7% by independent variable (employee productivity). It shows that employee productivity is responsible for incentives in the organizational performance.

**Table VI: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>16.960</td>
<td>.593</td>
<td>28.596</td>
<td>.000</td>
</tr>
<tr>
<td>employee productivity</td>
<td>1.733</td>
<td>.154</td>
<td>.499</td>
<td>11.257</td>
</tr>
</tbody>
</table>

a. Dependent Variable: organizational performance

The coefficient of determination for employee productivity is positive (1.733) and is highly significant (0.002) in ensuring organizational performance is well carried out. The p-value of 0.000 is less than the t-statistic value of 11.257 and the standard error value of 0.154. This implies that a unit increase in employee productivity will lead to 1.733 increases in organizational performance. Therefore, the null hypothesis is rejected and alternative hypothesis that is an incentive that influence and analyze the link between employee productivity in the organization.

**VIII. CONCLUSION**

Conclusively, the result of this study has shown that Pay incentive significantly correlates with employee productivity: tested at a 95% confidence interval, the results reveal that organizational practices aimed at the substantial reward and compensation of workers for their contributions further enhances their work productivity and task employee’s productivity and further places and thereby promotes the overall employee’s productivity of the organization.

Non pay incentives significantly correlates with employee employee’s productivity: tested at a 95% confidence interval, the results reveal that organizational practices aimed at the support, and focus on the wellbeing and welfare of workers through non-monetary activities impacts substantially on their work productivity and tardiness as it increases their motivation levels to perform better and be of more use to the organization.

Organizational culture significantly moderates the relationship between incentive management and employee employee’s productivity at a 95% confidence interval. The results of the analysis supports the assertion that the incorporation and adoption of incentive systems, processes and structures considered as fair, just and equitable further enhance the work behaviour of workers and employees of the organization, bringing about improved employee’s productivity and productivity.

**IX. RECOMMENDATIONS**

Researchers and academicians can utilize these study findings to test their hypothesis or to enhance further research, particularly on finding out cost effectiveness of different incentives and rewards used by organizations to increase employee productivity. The researcher should consider the current economic crisis with an aim to reduce costs and to balance between short term and long-term productivity outcomes. The researcher should come up with recommendations to be used by the management to reassess the combination of financial and non-financial incentives that can serve their organizations best through economic crisis.

It is very important to extent this research and discover new facts because motivational incentives are very basic element of any job (the desire to receive something beneficial in exchange of one’s effort). This research should be extended to other manufacturing organizations. Incentives are there, although working hours are also long. So under the Factories Act, 1934 no adult employee, defined as a worker who has completed his or her 18th...
year of age, can be required or permitted to work in any establishment in excess of nine hours a day and 48 hours a week. Therefore, bank employee’s working hours should be according to this act.

REFERENCES