

**THE ROLE OF FINANCIAL AND NON-FINANCIAL
INCENTIVES ON EMPLOYEE PERFORMANCE IN
NIC ASIA BANK AND GLOBAL IME BANK**

A Proposal

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CHAPTER I

INTRODUCTION

1.1 Background of the study

Performance management system is the systematic approach to measure the performance of employees. It is a process through which the organization aligns their mission, goals and objectives with available resources (e.g. Manpower, material, etc.), systems and set the priorities (Board, 2017).

The competency, skills and knowledge gaps are also identified through this process which can be improved by providing guidance, trainings, coaching and mentoring to employees or teams at different levels and designations. It optimizes the results through a proper channel and process that reduces the conflicts and grievances among teams or employees. This process can be applied to single department/function or to whole organization. It aims to continuously monitor and measure the performance standards against the desired goals and objectives. This will help to identify the motivational factors that will improve the employee performance.

NIC ASIA Bank is one of the largest private sector commercial banks in the country in terms of capital base, balance-sheet size, number of branches, ATM network and customer base. The Bank has 293 branches, 55 extension counters, 41 branch less banking and 319 ATMs across Nepal with a network covering all major financial centers of the country (NIC, 2019). It is the fastest growing bank as of now and has been awarded as, Banker of the Year 2007 and 2013 by The Banker, Financial Times, UK. NIC ASIA Bank has its antecedents in NIC Bank which was established on 21st July 1998 and was rechristened as NIC ASIA Bank after the merger of NIC Bank with Bank of Asia Nepal on 30th June 2013. This was a historic merger in the annals of the Nepalese financial landscape as the first of its kind merger between two successful commercial banks in the country. Today, NIC ASIA has established itself as one of the most successful commercial banks in Nepal. The Bank strongly believes in Meritocracy, Transparency, Professionalism, Team spirit and Service Excellence. These core values are internalized by all functions within the Bank and are reflected in all actions the Bank

takes during its business.

Global IME Bank, on the other hand, has emerged after successful merger of Global Bank Ltd (an A-class commercial bank), IME Financial Institution (a C-class finance company) and Lord Buddha Finance Ltd. (a C-class finance company) in year 2012. Two more B-class development banks (Social Development Bank and Gulmi Bikas Bank) merged with Global IME Bank Ltd in year 2013. Later, in the year 2014, Global IME Bank made another merger with Commerz and Trust Bank Nepal Ltd. (an A-class commercial bank). During 2015-16, Global IME Bank Limited acquired Pacific Development Bank Limited (a B-Class Development Bank) and Reliable Development Bank Limited (a B-Class Development Bank). During 2019-20, Global IME Bank Limited acquired Hathway Finance Limited (a C-class finance company) and merged with Janata Bank Nepal Limited (an A-class commercial bank). The bank is now operating 259 branches, 42 extension and revenue collection counters and 218 Branchless Banking facilities spread throughout Nepal. All of the banks' branches have been established as full service outlets that offer a large range of banking services to its customers. The bank also operates 234 ATMs throughout the country strategically placed for the convenience of customers. It has been conferred with The Bank of the Year Award 2014 for Nepal by the Bankers Magazine (Publication of the Financial Times, UK), Best Internet Bank 2016-Nepal by International Finance Magazine, London and Best Employer Award 2018 by World HRD Congress, India (Global, 2020).

1.2 Statement of the problem

The productivity of the organization depends on the performance of the employees. The performance of an employee depends on the strength of employee incentive schemes used in an institution. An employee incentive is given accordingly, to encourage the behavior and work done. The psychological literature on employee motivation states that motivational incentives can produce better employee performance. In essence, few studies are supported by an explanation of how incentives in workplace affect employee performance (Torrington, 2009).

One of the key factors that boost employee performance could be the effect of incentives offered to them. Such incentives could be in the form of facilities, fringe benefits, or/and annual bonus, etc. This study sought to fill the research gap between the employee performance and the company's growth, and is directed towards answering the following question.

1. Is there any significant difference on financial incentives, non-financial incentives and employee performance across bank employees in NIC ASIA and Global IME Bank with respect to age group?
2. What is the relationship of financial incentives, non-financial incentives and employee performance in NIC ASIA Bank and Global IME Bank?
3. What is the impact of financial incentives, non-financial incentives on employee performance in NIC ASIA Bank and Global IME Bank?

1.3 Objective of the study

The main purpose of this research is to study the effect of incentive and motivation on the employee performance of NIC ASIA Bank and Global IME Bank. The specific objectives of the research work are:

1. To analyze the difference on financial incentives, non-financial incentives and employee performance across bank employees in NIC ASIA and Global IME Bank with respect to age group,
2. To examine the relationship of financial incentives, non-financial incentives and employee performance in NIC ASIA Bank and Global IME Bank,
3. To identify the impact of financial incentives, non-financial incentives and employee performance in NIC ASIA Bank and Global IME Bank.

CHAPTER II

REVIEW OF LITERATURE

This chapter reviews the work of previous researchers, and in so doing, assures the reader that the work has been well conceived. The literature review surveys scholarly articles, books, and other sources relevant to a particular area of research. The review gives a theoretical base for the research and helps the author to determine the nature of the research. It also summarizes the empirical review of the results of the previous work in the related area of research. It guides the researchers in determining the various variables under the study. It aids in finding the areas needing additional study in the chosen research topic.

2.1 Theoretical review

Employee performance is an important aspect of the organization, which, determines how much the organizational growth increases or decreases. Incentives is one of the means through which organization motivates it employees to encourage them and increase their performance (Paillé, 2009).

Some of the underlying theories of employee performance which are described as below:

2.1.1 Herzberg's two-factor theory

The two-factor theory of motivation, also known as dual-factor theory or motivation-hygiene theory was developed by psychologist Frederick Herzberg in the 1950s, by analyzing the responses of 200 accountants and engineers who were asked about their positive and negative feelings towards their work. According to Herzberg, there are some job factors that result in satisfaction while there are other job factors that prevent dissatisfaction. Herzberg found the opposite of Satisfaction is No Satisfaction and the opposite of Dissatisfaction is No Dissatisfaction (Juneja, 2020).

Motivator factors – Simply put, these are factors that lead to satisfaction and motivate employees to work harder. According to Herzberg, the hygiene factors cannot be regarded as motivators. The motivational factors yield positive satisfaction. These factors are inherent to work. These factors motivate the employees for a superior performance.

These factors are called satisfiers. These are factors involved in performing the job. Employees find these factors intrinsically rewarding. The motivators symbolized the psychological needs that were perceived as an additional benefit. Examples might include enjoying the work, feeling recognized and career progression, sense of achievement, responsibility.

Hygiene factors – Hygiene factors are those job factors which are essential for existence of motivation at workplace. These do not lead to positive satisfaction for long-term. But if these factors are absent or if these factors are non-existent at workplace, then they lead to dissatisfaction. In other words, hygiene factors are those factors which when adequate/reasonable in a job, pacify the employees and do not make them dissatisfied. These factors are extrinsic to work. Hygiene factors are also called as dissatisfiers or maintenance factors as they are required to avoid dissatisfaction. These factors describe the job environment/scenario. The hygiene factors symbolized the physiological needs which the individuals wanted and expected to be fulfilled. These factors can lead to dissatisfaction and a lack of motivation if they are absent. Examples include salary, company and administrative policies, fringe benefits, physical working conditions, status, relationships with managers and co-workers, job security.

2.1.2 Hawthorne effect

The Hawthorne effect was first described by Henry A. Landsberger in 1950 who noticed a tendency for some people to work harder and perform better when they were being observed by researchers (Point, 2020). The Hawthorne Effect is named after a series of social experiments on the influence of physical conditions on productivity at Western Electric's factory at Hawthorne, Chicago in the 1920s and 30s. The researchers changed a number of physical conditions over the course of the experiments including lighting, working hours and breaks. In all cases, employee productivity increased when a change was made. The researchers concluded that employees became motivated to work harder as a response to the attention being paid to them, rather than the actual physical changes themselves.

The Hawthorne effect studies suggest that employees will work harder if they know they are being observed. Showing employees that we care about them and their working conditions may also motivate them to work harder. Furthermore, one needs to encourage employees to give feedback and suggestions about their workspace and development.

2.2 Empirical review

Ismail (2015) stated organizations thrive through the instrumentality of people because they possess the required skills, knowledge and competencies needed for the execution of organizational strategies and planning. Hence, organization should entrench a competitive total remuneration package that consists of career incentives programs and various organizational benefits based on the principle of distributive justice. Furthermore, Ismail has recommended that management should build up an effective pay design and management systems in organizations and in order to achieve this goal openness in communication and employee participation in the pay design and management is suggested based on his research. In fact, his findings of the research work indicated that there is positive relationship between career incentives, and employee performance.

Chepkemoi (2018) investigated effect of incentives on employee performance at Kenya forest service Uasin Gishu County. The study was guided by the Force-Field Theory of Change and Evolutionary Theory of Change. It adopted descriptive survey research design. It targeted all the employees at Kenya Forest Service in Uasin Gishu County which currently has 8 forest stations with a total population of 115 employees. Census method was used to get a sample size of 115 respondents. Questionnaires were used in collecting data. To test validity of the instruments, the instrument was given to supervisors and research experts. A pilot study was done in Nandi County to test for reliability. Split half method was used to test the reliability. A cronbach alpha of 0.72 was obtained which confirmed the reliability of the research instruments. Descriptive statistics (percentages, mean and standard deviation) was used to analyze data. The study findings indicated that incentives are essential in organizational performance. It recommended that Kenya forest service and other government institutions should embrace reengineering process in their systems of operations in order to improve on customer service, new

values of teamwork and cooperation, reduced employee turnover which in turn results in improved organizational image.

Fatah & Suhandini (2019) studied the effect of employee incentives and rewards on employee performance. The study is aimed at determining the effect of giving incentives to employee performance, giving rewards to employee performance and giving incentives and rewards to the performance of employees. This study used quantitative research methods, using saturated samples totaling 63 people. The results of the study obtained the consequences of giving incentives have a significant influence on employee performance, and giving rewards has a considerable impact on employee performance. Accordingly, providing incentives and rewards has a significant influence on employee performance with a coefficient of determination of 0.321, which can be interpreted that the variable giving incentives and rewards affects 32.1% of employee performance and other factors influence the remaining 67.9%.

Naqbi, Yusoff, and Ismail (2018) conducted a study on, The Effect on Incentive System on Job Performance Motivation as Mediator for Public Sector Organization for UAE. The main purpose of this research is to study the effect of motivation and incentive system on the job performance of public sector employees in UAE. The purpose of the research is also to illustrate to what extent incentives are used in the UAEs public service sector. To fulfill the objective of the research as well as to obtain real and reliable data, a research study was conducted at the Economic Development Department (EDD) in Al Sharjah. This research has adopted a quantitative approach to assess the effect of the incentive system in public sector in UAE on the job performance, and to identify the mediating effect of employees motivation in two dimensions (intrinsic and extrinsic) on the relationship between the incentive systems (monetary and tangible and non-monetary and intangible), and employees performance.

While most of the studies of employee performance are based on incentives, Pradhan & Jena (2017) explored the concomitant areas for extending the scope of employee performance as a major domain of human resource (HR) effectiveness. They interviewed researchers and corporate practitioners regarding their understanding of performance at

workplace. On the basis of literature and feedback from academicians and industry professionals, a conceptual framework along with 42-item instrument on employee performance was proposed for empirical validation. The instrument obtained empirical views from experts on its proposed dimensions and statements. The initial analysis of content validity ratio (CVR) of the instrument had resulted in 38 items having CVR value of 0.49 and above with 75 percent acceptability from expert analysis. The retained items were taken for field survey. In total, 361 executives from Indian manufacturing and service organizations responded to the 38-item employee performance scale. Exploratory factor analysis revealed three distinct factors of employee performance that constitute the new scale: task performance, adaptive performance, and contextual performance (TAC). Reliability study on the sample reported significant internal consistency on the total scale ($\alpha = 0.80$) along with the three subscales (α ranging from 0.80 to 0.91). The prescribed framework offers an inclusive understanding of the nature and subtleties of employee performance. It is proposed that, HR managers and organizational behavior (OB) practitioners must use the insights from the explored factors to create and maintain a better work environment. In applied perspective, the proposed instrument and its corresponding findings are expected to provide insights for designing organization-specific policies for improving employee performance.

Cainarca, Delfino, & Ponta (2019) addressed the role of monetary incentives with regard to the performance of employees and organizations. The distribution of monetary incentives among employees in public administration had investigated. Specifically, the traditional approach of bureaucracy that pays a premium to each employee, based on the position hold, was compared with a merit approach which tends to recognize and reward individual contributions. A task advice centrality indicator and a value index had defined and used to study the performance of employees. The results showed a modification of individual behaviors, in line with the theoretical foundations and predictions formulated.

2.3 Proposed research framework

Research framework of this study is shown in figure below.

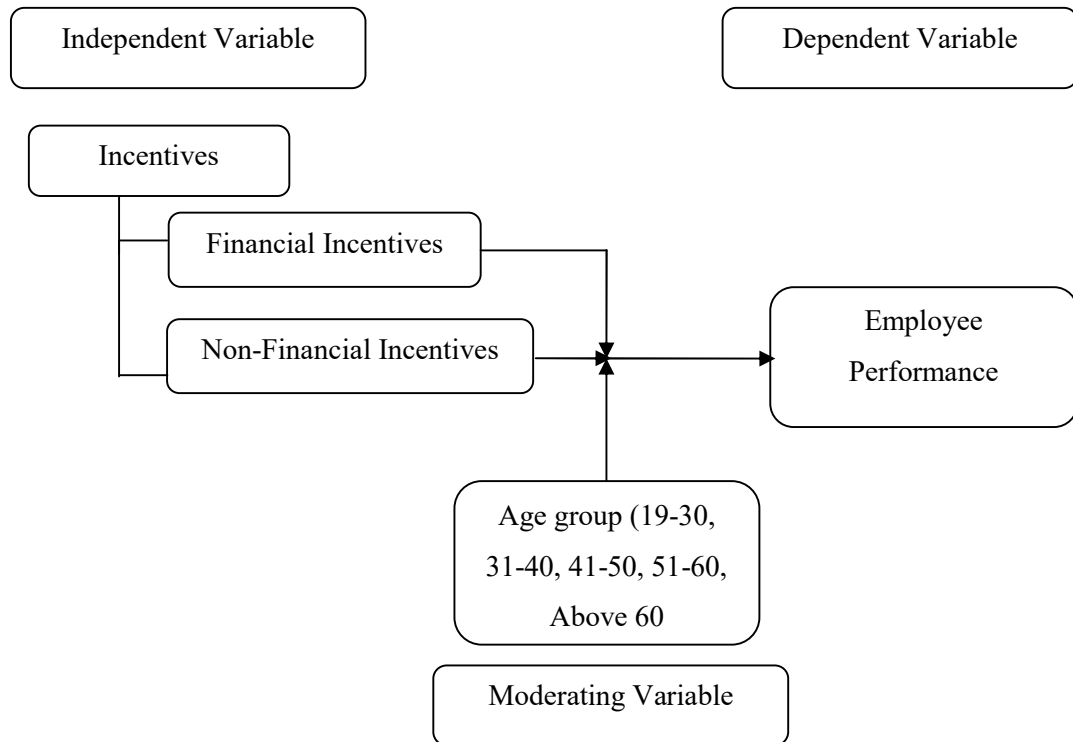


Figure 1. Research framework

2.3.1 Identification of variables and their interrelationships

Independent variables

- i. financial incentives,
- ii. non-financial incentives and
- iii. moderating variables.

Dependent variable

- i. employee performance.

CHAPTER III

RESEARCH METHODOLOGY

This chapter will present a description of the methodology that will be used in the study. It spells out the techniques and methods of sampling, data collection, research design, and methods of data analysis in the area in which the study will be carried out.

3.1 Research design

The main purpose of this research is to know about the role of financial incentives and non-financial incentives on employee performance in the NIC ASIA Bank and Global IME Bank. The research will use hypothesis test to determine the relationship and provide a conclusion about the tested variables. The research will be based on quantitative analysis in which the data collected will be statistically analyzed using SPSS. Considering the research objective, descriptive cross-sectional survey will be considered appropriate in order to analyze influence of incentives on employee performance at those banks.

3.2 Nature and sources of data

The data is aimed to collect from primary sources based on the survey opinion of the employees of the NIC Asia Bank Ltd., and the Global IME Bank Ltd. Before administering the questionnaire, a sample test will be performed at both the banks to validate and rationalize the questionnaire.

3.3 Population and sample method

The population refers to the entire group of individuals or events of subject of interest from which samples can be drawn to investigate. The selected population for the study will be employees of the banks, chosen randomly. The target populations for this research will be 50 employees of each bank. Before the selection of the sample size and finalizing the questionnaire, sample test will be conducted at both the banks, considering at least 10% of the targeted population. Furthermore, convenience sampling will be carried out to select the respondents because they are easily accessible.

3.4 Methods of analysis

The thesis will cover and include the financial and statistical tools to analyses the data in order to reach the conclusion of the research. The primary data collected from both the banks will be entered and analyzed using the statistical analysis software, SPSS. The analyzed data will be presented in tables, graphs, etc., wherever appropriate. Brief about the statistical analysis that will be conducted are given below:

3.4.1 Mean

The average number found by adding all data points and dividing by the number of data points. There are many different types of mean, but usually when people say mean, that is about the arithmetic mean (Academy, 2020).

$$\text{Mean } (\bar{x}) = \frac{\sum f(x)}{n}$$

where, x= Value of responses of each independent or dependent variable

n= Number of responses

3.4.2 Median

The middle number found by ordering all data points and picking out the one in the middle (or if there are two middle numbers, taking the mean of those two numbers). The median is the middle point in a dataset—half of the data points are smaller than the median and half of the data points are larger.

$$\text{Median } (Md) = \frac{(n+1)}{2} \text{ th term}$$

where, n= Number of responses

3.4.3 Mode

The most frequent number - that is, the number that occurs the highest number of times. The mode is the most commonly occurring data point in a dataset. The mode is useful when there are a lot of repeated values in a dataset. There can be no mode, one mode, or multiple modes in a dataset.

3.4.4 Standard deviation

Standard deviation is a statistic that looks at how far from the mean a group of numbers is, by using the square root of the variance. The calculation of variance uses squares because it weighs outliers more heavily than data closer to the mean. This calculation also prevents differences above the mean from canceling out those below, which would result in a variance of zero.

Standard deviation is calculated as the square root of variance by figuring out the variation between each data point relative to the mean. If the points are further from the mean, there is a higher deviation within the data; if they are closer to the mean, there is a lower deviation. So the more spread out the group of numbers are, the higher the standard deviation (Hargrave, 2020).

$$SD (\sigma) = \sqrt{\frac{(x - \bar{x})^2}{n}}$$

where, x= Value of responses of each independent or dependent variable

\bar{x} = Mean value of responses of each independent or dependent variable

n= Number of responses

3.4.5 Variance

Variance (σ^2) in statistics is a measurement of the spread between numbers in a data set. That is, it measures how far each number in the set is from the mean and therefore from every other number in the set (Hayes, 2020). Variance measures variability from the average or mean. A large variance indicates that numbers in the set are far from the mean and from each other, while a small variance indicates the opposite. Variance can be negative. A variance value of zero indicates that all values within a set of numbers are identical. All variances that are not zero will be positive numbers.

3.4.6 ANOVA test

Analysis of variance (ANOVA) is an analysis tool used in statistics that splits an observed aggregate variability found inside a data set into two parts: systematic factors and random factors. The systematic factors have a statistical influence on the given data

set, while the random factors do not. Analysts use the ANOVA test to determine the influence that independent variables have on the dependent variable in a regression study (Kenton, 2019).

3.4.7 Correlation

It is a statistical tool used to measure how strong a relation is between two variables. It expresses the strength of linkage or co-occurrence between two variables in a single value between -1 and +1. This value that measures the strength of linkage is called correlation coefficient, represented by r . The values close to +1 indicate a high-degree of positive correlations, while the values close to -1 indicate the high-degree of negative correlations. Pearson correlation coefficient is chosen for this study since the variables are normally distributed. Correlation is then calculated for the respond provided in Likert scale to find the degree of associations between independent and dependent variables for all samples.

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

where, n= Number of responses

x= Value of independent variable

y= Value of dependent variable

3.4.8 Regression

Regression is a statistical measurement that attempts to determine the strength of the relationship between one dependent variable (usually denoted by Y) and a series of other changing variables (known as independent variables). The purpose of regression analysis is to predict an outcome based on a historical data. So, regression analysis is used to predict the behavior of a dependent variable based on the behavior of a number of independent variables. In this study, linear regression is used as it is the most basic and commonly used predictive analysis. It estimates the coefficients of the linear equation, involving one or more independent variables that best predict the value of the dependent variable. At the center of the regression analysis is the task of fitting a single line through

a scatter plot. The simplest form with one dependent and two independent variables is defined by the formula,

$$Y = a + b_1 * X_1 + b_2 * X_2$$

where, Y = Employee performance

a = Intercept

X₁ = Financial incentives

X₂ = Non-financial incentives

b₁ = Coefficient of financial incentives

b₂ = Coefficient of non-financial incentives

3.5 Limitations of the study

Following are the major limitations of the study:

1. Study has been conducted in a limited staffs of the banks, with the assumption of representing whole population. However, the findings may not generalize whole banking sector.
2. Choice of independent variables was limited to the previous studies conducted and its findings.
3. Study is conducted in a limited time period.
4. Validity of the study depends on the information provided by the respondents.

CHAPTER IV

ORGANIZATION OF THE STUDY

It deals with the holistic concept of research report. It is explained the research report as a complete form. This study is divided into five chapters which are as follows:

Chapter One

Introduction

In this section, the chapter will introduce the major issues related to the study, general background and statement of the problems, objectives, significance of study and organization of the study.

Chapter Two

Review of literature

Review of Literature will be important tasks for thesis writing. This Chapter will provide a brief review of literature related to study. It will include a related theories, review of empirical literature and theoretical framework. It will also provide an overview of the related literature done in the past related to this study.

Chapter Three

Research Methodology

In this chapter, the focus will be mainly related to research design, population and sample of study, nature and sources of data, definition of the variable, and methods of data analysis and limitation of the study. It will include the financial analysis of a firm where we need the various data and different statistical tools.

Chapter Four

Data Presentation and Analysis of Data

This chapter comprises of presentation and analysis of the data obtained during the study. Different tools and techniques are used for the purpose of data analysis which includes

figures and diagrams as well. In this chapter, the collected and processed data are presented, analyzed and interpreted using analytical tools, charts and figures.

Chapter Five

Summary, Conclusion and Discussion

This will be the end section of the report. This chapter finally summarizes the study in a few paragraphs and tries to conclude the whole study; that is the result of the research.

Conclusion of the study is also included in this chapter and possible viable discussion is also presented.

Bibliography, appendixes and other related materials are presented at the end of the thesis report.

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