



## **EMPLOYEE'S PERCEPTION TOWARDS VARIOUS PERFORMANCE BASED INCENTIVE SCHEMES**

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### **Abstract**

The aim of this study was to identify the employee's perception towards performance based incentive schemes. Convenience sampling (Non probability sampling) method was adopted and 100 respondents were selected. Through a mean score, it had been shown that performance based incentives scheme increased the productivity and also increased the employee performance.

**Keyword:** Incentive scheme, Performance based incentive scheme

### **Introduction**

Employee perception is the way they think about or understand someone or something. Performance based incentive scheme has been utilized in the private service sector for many years. The pay scheme is based on an employee's performance, measured by some predetermined means, which then leads to compensation based on that measure. These schemes incorporate a determination of productivity that is communicated to the employee at the onset of each measurement period, yearly, quarterly, or monthly. Once the performance threshold is established, the employee is monitored, continuously or at certain preset intervals, and feedback is given on their progress. Employees who perform above the threshold level are awarded for their performance by incentive pay through either permanent salary increase or one time awards. In the event, the employee is failing to perform at the threshold level, management works with the employee to understand the reasons for the shortcomings and ways to correct them. If the employees do not, or cannot, correct their deficiencies, they may be terminated, or in some instances re-assigned.

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Performance-based incentive scheme is very functional within private service industry where the measure of performance is usually based on the company's profitability, or the employee's ability and performance in making the company profitable. Pay systems that incorporate straight commissions on sales, profit sharing, and performance bonuses are all examples of private industry's belief that employees are motivated by incentives, and that given the proper incentives, including attainable goals, employees will perform better.

The development of incentives scheme has an important role in motivating workforce to deliver high levels of performance, discretionary effort and contribution (Salanova and Kirmanen, 2010). Marketing Resource Center, (2009); if the organization does not take efforts to motivate its work force by way of monetary rewards it is likely that the performance of a complex job as a whole will be reduced often to a single measure of performance such as profit, without considering other factors that makes up total performance of the system.

Through time, many researchers have attempted to conduct studies on the issue of motivation in work situations. Each of these studies at some point have been applied and tested as to its effects on people's lives, jobs, and personal goals in life and in the work place (Riley, 2005). It has long been said that one of the manager's most basic tasks is to communicate with and motivate their workers (Ruthanakoot, 2003).

### **Review of Literature**

Many jobs in the world are today paid via performance-based payment or at least have a component including financial payments based on individual performance. As ones performance is comparably easy to investigate, financial incentives dependent on visible achievements seem useful and practicable and in consequence are used in today's society. This means, that numerous employees, especially at a particular level (Managers) or with a substantial part of identifiable success (Sales, Consulting) are rewarded for their effort based on observed measures of performance (Ambachtshee, et. al., 2008). The intention behind performance-based compensation is to stimulate individuals to increase their motivation and effort spent on tasks, and hence their output, or in other words, profitability for the company. By using this way of payment, special incentives are placed and a change in one's behavior is intended to be reached for receiving the maximum possible outcome for the company.



Burgess and Rato (2003) studied the role of incentives in the public sector. The main objective of their study was to make a review of important issues in Performance pay in the Public sector and make a summary of its effects. It also considered how optimal incentives for public sector workers differ from private sector workers and if so, what types of incentives were more appropriate for the public sector. (Burges and Rato, 2003) concluded that, the use of performance related pay was more problematic in the public sector than in the private sector. This was because of multi-tasking, multiple principals, and the difficulty of defining and measuring outputs and the issue of the intrinsic motivation of workers. The study observed that low powered incentives schemes were optimal thus task assignment and work organization became crucial in promoting better performance and sometimes became substitutes for high powered financial incentives.

## Research Methodology

### Population and Samples

The study which was done from August to December 2016, at first step, the sample was identified from statistical population. The Cochran formula was used to determine the sample size and a total of hundred employees were calculated and collected based on convenience sampling. The industries included two groups (bank and healthcare) and sample was chosen from two private service industries in Oman. In order to gain the participant's cooperation, a justification meeting was held to explain the objectives of the project in each company. Questionnaires were distributed among the participants. The data were acquired on five-point Likert scale. To determine the reliability, Cronbach's coefficient alpha was applied and obtained coefficient was 0.67.

## Analysis and interpretation

### Compensation Policy

| Statements related to Compensation Policy  | Mean  | SD    |
|--|-------|-------|
| My base pay is dependent upon my work performance  | 3.905 | 1.023 |
| My bonus is dependent upon my work performance   | 3.671 | 1.084 |
| My boss will give me special recognition if my work performance is above target.             | 2.774 | 1.184 |
| My boss will increase my job responsibilities if my performance results are above target.    | 2.910 | 1.179 |
| Performance results above target are likely to affect my job promotion.                      | 3.888 | .929  |
| Performance results below target are likely to affect my employee status (i.e. termination). | 2.960 | 1.331 |



**Inference:**

The above table highlights the level of agreement of respondents with respect to the statements related to compensation policy on a 5 point Likert scale with 1 marked as strongly disagree and 5 marked as strongly agree.

Base pay being dependent on work performance has the highest mean score of 3.905, followed by performance results above targets likely to affect job promotion with a mean score of 3.888. Respondents feeling performance results below targets likely to affect employee status (termination) follows with a mean score of 2.960.

Boss giving special recognition if work performance is above targets shows the lowest mean score of 2.774.

**Variable Pay / Incentives Policy**

| Statements related to Variable Pay/Incentive Policy   | Mean  | SD    |
|---|-------|-------|
| My incentive is linked to a set of organizational performance targets   | 3.336 | 1.036 |
| My incentive is linked to a set of business unit/team performance targets   | 3.169 | 1.042 |
| My incentive is linked to a set of individual performance targets   | 2.960 | 1.027 |
| My incentive is linked to internal financial performance targets (e.g. profit, revenues, cost)  | 3.424 | 1.066 |
| My incentive is linked to external financial performance targets (e.g. market share, stock value)   | 3.276 | 1.108 |
| My incentive is linked to internal non financial performance targets (e.g. productivity, safety, employee satisfaction)   | 2.769 | 1.179 |
| My incentive is linked to external non-financial performance targets (e.g. customer satisfaction, quality of service, environmental or community performance targets) | 3.005 | 1.088 |
| My incentive is mainly determined by how well I achieve my financial performance targets  | 3.995 | .999  |
| My incentive is mainly determined by how well I perform according to my boss' opinion   | 3.893 | 1.039 |
| My incentive performance targets are difficult to achieve   | 3.707 | 1.044 |
| I actively participate in the setting of my incentive performance targets   | 2.774 | 1.184 |
| I have control/influence over my incentive performance targets  | 2.886 | 1.177 |
| I take actions based on my incentive performance targets  | 3.876 | .921  |
| My incentive performance targets provide me with information about the results of my actions  | 2.936 | 1.330 |
| Based on my current performance, this quarter I will be above my performance targets  | 3.336 | 1.036 |

**Inference:**

The above table highlights the respondents' level of agreement about variable pay/Incentive policy as a construct affecting performance related incentive scheme.. Respondents were asked to rate a set of statements on a five point scale using the psychometric Likert scale with 1 marked as strongly disagree and 5 marked as strongly agree.



Variable pay depending on how well financial performance targets are achieved has the highest mean score of 3.995, followed by incentive mainly being determined by how well performance is demonstrated according to superior's opinion has a mean score of 3.893, followed in turn by taking actions based on incentive performance targets with a mean score of 3.876

The lowest mean score of 2.774 is obtained by level of agreement with respect to actively participating in the setting of incentive performance targets which is followed closely by incentive being linked to internal non-financial performance targets (e.g. productivity, safety, employee satisfaction) with a mean score of 2.769.

### **Conclusion**

The results of the statistical analysis showed that, in the context of the Oman private service sectors, the performance based incentive schemes highly attracted the employees. Because of the performance based incentive schemes employees were committed to perform well. Performance based incentive schemes were positively and significantly related to employee performance. The research findings supported the commonly held notion that the effective use of incentive practices had the potential to increase organizational performance; thus, it is recommended that managers should give special attention to how best to employ such practices to attract and retain talented individuals; and how to effectively employ the performance-based incentive schemes to strengthen the ties between pay and employees' performance among the private service sectors.

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