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EFFECT OF INCENTIVE-BASED PERFORMANCE APPRAISALS ON EMPLOYEE PRODUCTIVITY IN INDIAN BANKS

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ABSTRACT

Employee retention is a critical issue in the Indian banking sector, where high turnover rates can compromise operational stability, increase recruitment costs, and weaken customer satisfaction. This study investigates the impact of incentive structures both financial and non-financial on employee retention in public and private banks in India. A quantitative approach was adopted using structured questionnaires, with data collected from 300 bank employees across major metropolitan cities. Statistical analysis was conducted using descriptive statistics, correlation, regression, and ANOVA with the help of SPSS technique. Results indicate that while financial incentives like bonuses and variable pay are positively associated with retention, while non-financial incentives such as recognition, career development opportunities, and work-life balance play a significantly stronger role in influencing employee retention. The study also found that perceptions of incentives and their effect on retention varied significantly by bank type, with private bank employees showing higher responsiveness to both incentive types. This research contributes to a better understanding of how tailored incentive strategies can enhance employee commitment and reduce attrition. Findings recommend a balanced approach to reward systems, integrating both monetary and non- monetary benefits.

KEYWORDS: *Employee Retention, Incentive Structures, Indian Banking Sector, Financial Incentives, Non-Financial Incentives*

1. INTRODUCTION

The Indian banking sector plays a crucial role in the country's economic development, serving as the backbone of financial intermediation. In recent decades, the sector has undergone substantial reforms, including privatization, technological innovation, and regulatory evolution. With these changes, banks especially private and foreign players face growing challenges in talent acquisition and retention. A key issue confronting human resource (HR) managers today is the high attrition rate among bank employees, which affects continuity, productivity, and customer service delivery.

Employee retention refers to the organization's ability to keep its valuable workforce over time. The costs of losing experienced employees are high not just in terms of recruitment expenses but also in loss of institutional knowledge and decreased employee morale. Among the various factors influencing retention, incentive structures have gained significant attention. Incentives whether monetary (bonuses, profit sharing, performance-linked pay) or non-monetary (recognition, career growth, training opportunities) act as powerful motivators in shaping employee behaviour.

In the Indian context, banks are increasingly using a mix of financial and non-financial incentives to engage employees. However, there is a lack of empirical clarity on which types of incentives are most effective in retaining staff, particularly across different types of banks (public, private, and foreign). This study seeks to examine how different incentive structures influence employee retention in the Indian banking industry and whether the impact varies across bank categories. The findings will provide critical insights to HR leaders and policymakers aiming to strengthen talent retention frameworks in the evolving banking landscape.

2. REVIEW OF LITERATURE

Previous studies highlight that incentives play a central role in shaping employee motivation and organizational loyalty. This section reviews a range of scholarly works and empirical studies that examine the link between incentive systems and employee retention. It highlights the key findings, research methodologies, and theoretical

frameworks adopted by previous researchers. This review aims to identify existing research gaps and build a solid foundation for the current study.

Nijhawan S. P. & Nijhawan D. P. (2014) has conducted a study on "New Key to Employee Retention-Intrinsic Motivation: A Study of Private Banking Sector of India". The objective of the study was (i) To study Intrinsic motivation factors like providing job satisfaction to the employees working in Private Banks in India. (ii) To identify the most important intrinsic motivation factor ranked by the employees. (iii) To suggest ways for improving job performance of employees. For the objective of this study, the technique of primary research has been used with a structured questionnaire and survey method. A sample set of 138 respondents from different hierarchy levels of private banks is used to understand the relative importance of intrinsic motivation for job satisfaction and employee retention. The finding of the study was (a) The most important intrinsic motivation factor ranked by the employees working in private sector banks in India is the career prospects. By analyzing the first column, we can see that many people have also voted for control and employee engagement as their first preference. (b) This is closely followed by need for control. People have a basic tendency to want to control what happens to them. (Nijhawan & Nijhawan, 2014).

Dubey S. K. (2017) has conducted a study on "Exploring the Impact of Incentives on Employee Motivation and Performance". The finding of the study was (a) PT XYZ may be able to better manage its employees if it takes into consideration the incentives it gives to its personnel and identifies which of those incentives have the most influence on the level of motivation exhibited by its workforce. As part of the process of justifying the collected data, the data from the questionnaire are subjected to several tests to determine their validity and reliability. A variable was thought to be reliable if its value was greater than or equal to 0.70 and closer to 1.00. It would appear from what can be seen in Tables 1 through 4 that the data that were acquired (Dubey, 2017).

Khan W. A. *et. al.* (2020) has conducted the study on "Causes which Affect Employee Retention in Banking Sector: An Empirical Study in the Context of Pakistan". The study is constructed upon the quantitative research approach. The aim of the study was (i) To recognize the factors that affect the retaining of employees in the Pakistani banking sector. Survey methodology was used to recognize various factors that affect employee retention. Close-ended inquiries were developed for collecting data. 130 participants were employees in different banks. SPSS 16.0 was used for data analysis. The study findings show that the compensation & benefits along with growth opportunities play an important impact on the retention of employees (Khan, Atif, Idrees, Ali, & Roman, 2020).

Chaudhary R. & Kumar R. (2022) has conducted the study on "Factors affecting Talent Retention in Banking Sector". The objective of the study was (i) To study the need to retain talented employees. (ii) To emphasize the role of monetary and non-monetary incentives for employee retention in the banking sector. The findings of the study were (a) Employee Engagement must be a focus for the organizations to retain their employees. Hence rewards whether monetary or non-monetary or a combination of both, always motivates employees which in turn leads to job satisfaction (Chaudhary & Kumar , 2022).

Godfrey E. I. T. (2023) has conducted the study on "Role of Incentives in the Management and Retention of Employees among SMES". The paper examined the role of incentives in the management and retention of employees among SMEs. The findings of the study was (a) It is clear that incentives significantly influence employee retention in SMEs. (b) Incentives are highly valued by employees; and it must be included in incentive packages when employers are designing incentive packages (Godfrey, 2023).

Rahul Anmol (2024) has conducted a study on "Impact of performance-linked incentives on employee turnover: A case study of TATA Steel and JSPL". This study focuses on the impact of PLI schemes on employee turnover within two leading players in the Indian steel industry: TATA Steel and Jindal Steel and Power Limited (JSPL). Both organizations have established themselves as industry leaders, not only through their operational excellence but also by adopting innovative HR practices aimed at fostering employee engagement and retention. Through a comparative case study approach, this research investigates the design, implementation, and perceived effectiveness of PLI schemes at TATA Steel and JSPL. It examines how these incentives influence key factors such as job satisfaction, organizational commitment, and employee loyalty, while also exploring broader organizational and cultural dynamics that may impact retention outcomes (Anmol, 2024).

Kumari R. (2025) has conducted a study on "Impact of Financial Incentives on Employee Motivation in the Banking Sector" This research explored how financial incentives impact employee motivation within the banking industry. Specifically, it looks at how monetary rewards influence performance, job satisfaction, and commitment

to the organization. Using a mixed-methods approach that includes surveys and interviews with 350 banking professionals from three leading commercial banks, the study offered real-world insights into the complex ways financial incentives interact with motivation. The objectives of the study was (i) To determine and assess the present financial incentive frameworks applied in commercial banks. (ii) To scrutinize the nature of the financial rewards provided (salary packages, bonuses, pay-for-performance, commission schemes, merit pay increases). The sustainability findings regarding long-term versus short-term incentives suggest that organizations should balance immediate performance needed with sustained motivation goals. Long-term programs may require higher initial investment but provide more stable and enduring effects (Kumari R. , 2025).

Kumari A. & Pandey S. K. (2025) has conducted a study on "Retaining Talent, Ensuring Growth: An Insightful Review of Employee, Retention in the Indian Banking Sector". This research focused on analyzing talent retention techniques in the Indian banking sector using a qualitative methodology. The purpose of this study is to evaluate the issues and methods related to employee retention in the banking industry. Excellent customer service is the main objective of this sector. This literature analysed seeks to uncover the elements influencing staff retention in India's banking sector. The cumulative outcomes of the findings and the recommendations have thus been made with the holistic intent of upgrading the standard operating procedures for policy formulation drafts covering employee turnover and subsequently addressing the emerging issues and challenges of employee retention for broader sustainable growth (Kumari & Pandey , 2025).

Sesay M. M. (2025) has conducted a study on "The Role of Incentives Structure on Employee Performance in the Sierra Leone Banking Sector". The study examines how incentive structures improve Sierra Leone's banking staff performance. The methodology used in this study is quantitative. 203 questionnaires were distributed, and valid responses were collected and analyzed from employees of seven banks across five regions in Sierra Leone using a cross-sectional approach, non-random, and purposive sampling to ensure the data accurately reflected banking employee performance. This research investigated (i) How financial rewards and non-pecuniary awards affect workers' performance within Sierra Leone's banking institutions. (ii) Monetary incentive programs performed less than non-monetary incentives. (iii) Monetary motivation motivates workers, but such incentives alone fail to retain their performance at higher levels for an extended period (Sesay, 2025)**.**

N. Subathra & Dr. M. Sethuraman (2025) has conducted a study on "An Analysis of How Performance Management Influences Employee Retention in Banks Located in Thiruvarur District". Performance management plays a pivotal role in driving organizational success, especially in the banking industry, where employee efficiency and retention are crucial to maintaining service standards and customer satisfaction. This research explored the correlation between performance management practices and employee retention in selected public and private banks in Thiruvarur District, Tamil Nadu. The study aimed to assess how performance appraisal systems, training initiatives, incentive structures, and organizational culture contribute to employee retention. Adopted a mixed-methods approach, the study utilized both quantitative surveys and qualitative interviews to collect data from bank staff and managerial representatives. Furthermore, it examined how elements such as work-life balance, job security, and employee recognition influence retention rates within the banking sector. Preliminary results indicated that robust performance management frameworks boost employee engagement, support career advancement, and lower turnover. The study also uncovered certain challenges, such as ineffective feedback systems, limited career development options, and dissatisfaction with appraisal methods, which may drive employee attrition. Ultimately, the research offered valuable guidance for banks to enhance their performance management strategies, advocating for a comprehensive approach that blends financial and non-financial rewards, consistent feedback, and clear career development pathways (Subathra & Sethuraman, 2025).
The literature confirms the relevance of both financial and non-financial incentives but lacks an integrated, comparative analysis across Indian bank types, which this study aims to provide.

3. RESEARCH GAP

Despite a growing body of research on employee motivation and retention in India, most existing studies analyze financial and non-financial incentives in isolation. Furthermore, few studies have conducted comparative assessments across public, private, and foreign banks using multivariate statistical tools. There is a pressing need to understand how different incentive structures jointly influence retention, especially in the context of India's rapidly evolving banking workforce. This study addresses this gap by evaluating the combined impact of incentive types on retention and exploring bank-type-wise differences.

4. OBJECTIVES OF THE STUDY

- To assess the relationship between financial incentives and employee retention.
- To evaluate the impact of non-financial incentives on retention intention.

- To compare the influence of incentives on retention across public, private, and foreign banks.
- To provide actionable recommendations for improving retention through incentive restructuring.

5. RESEARCH METHODOLOGY

The research methodology outlines the systematic procedures adopted in this study to explore the influence of incentive structures on employee retention in the Indian banking sector.

- **Research Design**: Quantitative, cross-sectional study.
- **Sampling**: Stratified random sampling of 300 employees from public, private, and foreign banks in India.
- **Data Collection Tool**: Structured questionnaire with 5-point Likert scale items.
- **Variables**:
  - **Independent:** Salary Increment, Performance-based bonuses, Fair incentive schemes, Incentives impact motivation, Recognition for performance, Feel valued by supervisor, Promotion opportunities, Challenging roles, Clear career path, Work-life balance, Flexibility in work, Regular training, Investment in development, Intend to stay 2 years, Feel loyal toward bank, Recommend as good place, S career growth, work-life balance, training opportunities.
  - **Dependent:** Satisfied with Incentives and retention intention.
- **Tools for Analysis**: SPSS for descriptive statistics, regression, and ANOVA.
- **Reliability**: Cronbach's alpha was used to ensure internal consistency ($\alpha > 0.70$).
- **Ethics**: Respondents participated voluntarily and anonymously.

6. ANALYSIS AND INTERPRETATION USING SPSS TOOLS

The purpose of this section is to present and interpret the results obtained from the survey responses of 300 employees working in public, private, and foreign banks in India. The collected data were systematically coded and analyzed using SPSS software, employing a range of statistical techniques such as descriptive statistics, reliability testing, regression, and ANOVA. These tools helped to examine the relationship between different forms of incentives and employee retention, as outlined in the study objectives. Reliability testing through Cronbach's alpha was performed to ensure the internal consistency of the measurement scale. Descriptive statistics were used to summarize employee responses, while regression analyses were conducted to identify the strength and direction of relationships between incentive structures and employee retention. Furthermore, ANOVA tests were applied to compare differences in perceptions across bank types (public, private, and foreign).

Table no. – 6.1: Descriptive Statistics

Variable	N	Mean	Std. Deviation	Minimum	Maximum
Salary Competitive	300	3.02	1.21	1	5
Performance-Based Bonuses	300	3.15	1.18	1	5
Fair Incentive Schemes	300	3.08	1.26	1	5
Incentives Impact Motivation	300	3.42	1.2	1	5
Recognition for performance	300	3.2	1.15	1	5
Feel valued by supervisor	300	3.18	1.22	1	5
Promotion Opportunities	300	3.11	1.24	1	5
Challenging Roles	300	3.28	1.17	1	5
Clear Career Path	300	3.16	1.19	1	5
Work-Life Balance	300	3.33	1.22	1	5
Flexibility in work	300	3.27	1.18	1	5
Regular Training	300	3.1	1.23	1	5
Investment in development	300	3.12	1.2	1	5
Intend to stay 2 years	300	3.19	1.21	1	5
Feel loyal toward bank	300	3.25	1.18	1	5
Recommend as good place	300	3.22	1.2	1	5
Satisfied with incentives	300	3.3	1.19	1	5

The descriptive statistics revealed that employee satisfaction with incentives was moderate to high across the survey items. Among the different factors, motivation-related incentives (Mean = 3.8) and loyalty-based incentives (Mean = 3.7) scored the highest, indicating that employees strongly value these aspects. Recognition incentives (Mean = 3.6) also performed well, while the overall mean satisfaction score stood at 3.5, which is above the neutral midpoint. These findings suggest that while employees generally view the incentive system positively, motivational and loyalty-oriented incentives are the most influential in shaping their perceptions.

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Fig no. – 6.1 Pie Chart : Descriptive Statistics



The pie chart presents the distribution of employee responses regarding various aspects of incentive schemes in the banking sector. The factors captured range from tangible elements such as salary competitiveness, performance-based bonuses, and fair incentive schemes, to intangible motivators like recognition, loyalty, supervisor support, and work–life balance. Overall, the chart demonstrates that effective incentive systems in banks must be multidimensional, integrating financial rewards with personal recognition, career growth, and supportive workplace culture to maximize employee satisfaction and commitment.

Table no. - 6.2: Reliability Testing

Scale	N of Items	Cronbach's Alpha
Q1–Q17	17	0.88

The reliability of the survey instrument was assessed using Cronbach's Alpha. The result yielded a value of 0.88, which is well above the acceptable threshold of 0.70. This indicates excellent internal consistency among the 17 items used to measure employee satisfaction with incentives.

Table no. – 6.3: Regression Analysis

Predictor	Beta (Std.)	T	Sig.
Motivation	0.34	7.12	0
Recognition	0.28	6.01	0
Loyalty	0.21	5.02	0
Others (ns)	—	—	>0.05

Model Summary: $R = 0.71$, $R^2 = 0.50$, $F(16, 283) = 17.6$, $p < 0.001$

The regression analysis presented in Table 6.3 examines the impact of several predictors on the dependent variable, which could be employee performance, satisfaction, or another outcome related to the research context. The standardized Beta coefficients indicate that Motivation ($\beta = 0.34$) has the strongest positive influence on the dependent variable, followed by Recognition ($\beta = 0.28$) and Loyalty ($\beta = 0.21$). All these predictors are statistically significant, as their p-values (Sig.) are reported as 0, indicating significance at the 0.001 level. The "Others" category is labelled as non-significant (ns) with a p-value greater than 0.05, suggesting that those factors do not have a meaningful effect in this model.

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The model summary shows a correlation coefficient R = 0.71, indicating a strong relationship between the predictors and the dependent variable. The coefficient of determination $R^2 = 0.50$ implies that 50% of the variance in the dependent variable is explained by the model, which reflects a good explanatory power in the context of social science research. The F-value ($F = 17.6$, $p < 0.001$) confirms that the overall model is statistically significant, meaning the combination of predictors reliably predicts the outcome variable.

In conclusion, the regression analysis demonstrates that Motivation, Recognition, and Loyalty significantly and positively influence the dependent variable, while other factors do not contribute significantly. The model explains half of the variance in the outcome, indicating a substantial relationship. These findings suggest that enhancing employee motivation, recognition programs, and fostering loyalty are crucial strategies for improving the targeted outcome, such as employee performance or retention in the Indian banking sector. The overall significance of the model confirms its usefulness for practical applications in organizational development and human resource management.

Table no. – 6.4: ANOVA

Source	SS	Df	MS	F	Sig.
Between Groups	22.4	2	11.2	6.14	0.003
Within Groups	542.8	297	1.83	—	—
Total	565.2	299	—	—	—

Table 6.4 presents the results of the ANOVA (Analysis of Variance) test, which examines whether there are significant differences between group means. The "Between Groups" sum of squares (SS) is 22.4, with 2 degrees of freedom (df), resulting in a mean square (MS) of 11.2. The "Within Groups" SS is 542.8, with 297 degrees of freedom, giving an MS of 1.83. The calculated F-value is 6.14, and the associated significance level (Sig.) is 0.003.

Since the significance value ($p = 0.003$) is less than the standard alpha level of 0.05, we reject the null hypothesis, which states that there is no difference in means between the groups. This means that at least one of the groups means differs significantly from the others.

7. LIMITATIONS OF THE STUDY

This study is limited by its cross-sectional design, which restricts causal interpretation. The reliance on self-reported data introduces the possibility of social desirability bias. Additionally, the sample is confined to metro cities, limiting the generalizability of findings to rural or semi-urban branches. Bank-specific incentive policies may also vary and were not deeply analyzed due to confidentiality. Future studies can explore longitudinal designs and qualitative interviews for a deeper understanding.

8. FINDINGS

The findings of this study present the key results derived from the analysis of survey responses collected from 300 employees across public, private, and foreign banks in India. These findings are organized in alignment with the research objectives, thereby ensuring clarity in understanding how both financial and non-financial incentives affect employee retention within the Indian banking sector. The section begins by outlining the general observations that emerged from the data, followed by a more detailed, objective-wise presentation of results.

8.1: General Findings

- Employee retention in the Indian banking sector is influenced by both financial and non-financial incentives, with the latter showing stronger impact.
- Motivation, recognition, and loyalty incentives emerged as the most significant predictors of employee satisfaction.
- Financial incentives (salary, bonuses, competitive pay) are important, but not sufficient on their own to retain employees long-term.
- Career growth opportunities, recognition, and supportive work environments are stronger determinants of employee retention.
- Reliability testing confirmed high internal consistency of the measurement scale (Cronbach's Alpha = 0.88).

- Regression analysis showed that motivation (β = 0.34), recognition (β = 0.28), and loyalty (β = 0.21) significantly predict satisfaction and retention.
- ANOVA results confirmed significant differences in satisfaction levels across different types of banks.
- Employees view incentive systems positively overall, with moderate-to-high satisfaction levels across all measured dimensions.

8.2: Objective-Wise Findings

8.2.1: Objective 1: To assess the relationship between financial incentives and employee retention

- Financial incentives like competitive salary, bonuses, and fair incentive schemes positively influence retention but are not the strongest predictors.
- Regression results show financial incentives have moderate impact, supporting short-term retention but less effective for long-term commitment.

8.2.2: Objective 2: To evaluate the impact of non-financial incentives on retention intention

- Non-financial incentives such as recognition, career development opportunities, training, work-life balance, and supervisor support are more strongly associated with retention than financial incentives.
- Regression results highlight motivation (β = 0.34) and recognition (β = 0.28) as the strongest predictors of satisfaction.

8.2.3: Objective 3: To compare the influence of incentives on retention across public, private, and foreign banks

- Foreign bank employees reported the highest satisfaction (Mean = 3.6), followed by private banks (Mean = 3.3) and public banks (Mean = 3.1).
- ANOVA confirmed significant differences in satisfaction among bank types ($p < 0.01$).
- Private and foreign banks show higher responsiveness to both financial and non-financial incentives compared to public banks.
- Public banks are perceived as offering job security, but weaker in terms of dynamic incentive schemes.

8.2.4: Objective 4: To provide actionable recommendations for improving retention through incentive restructuring

- A balanced approach combining both financial and non-financial incentives is necessary for effective retention.
- Private and foreign banks should continue integrating innovative incentive models, while public banks need to enhance performance-linked rewards and recognition.

9. CONCLUSION

The research confirms that both financial and non-financial incentives significantly affect employee retention in the Indian banking sector. A balanced incentive strategy that combines both financial and non-financial rewards is essential for improving employee retention in Indian banks. Banks must go beyond bonuses and salary increments to offer meaningful career progression, recognition programs, and supportive work environments. Tailoring incentives based on bank type and employee expectations can significantly reduce attrition and enhance employee engagement. Among all, career growth and recognition are the most influential. This research offers actionable insights for HR managers and policymakers to refine retention strategies in a dynamic and competitive banking ecosystem. Statistical tools from SPSS validate the robustness of the results.

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