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THE EFFECT OF FINANCIAL INCENTIVE ON EMPLOYEE PERFORMANCE IN SOME SELECTED COMMERCIAL BANK IN MOGADISHU SOMALIA

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ABSTRACT

This paper examines the effect of financial incentives on Employee performance. The objectives of this study were to identify the role of financial incentives on employee performance, to find out the challenges facing financial incentives to companies, and To know the instruments or types of financial incentives used as financial incentives in the commercial banks. A questionnaire was used for data collection, which was randomly distributed among 70 staff consisting of employee and managers commercial banks in Mogadishu Somalia. SPSS Software were used for data analysis. The results of the data analysis showed that the positive and significant association between financial incentives and employee commitment and increase in financial incentives such as promotion and bonuses, enhanced employee commitment which increases the employee's performance and reduces turnover and employees can only be loyal when their wants and desires are satisfied.

KEYWORDS: Bonus, Commission, Premium Pay, Specific, Attendance, Work Quality.

1.0 INTRODUCTION

Financial incentives frequently are suggested as a method for motivating and improving the performance of persons who use and are affected by the accounting information (Atkinson, 2001). In the most general sense, money has been shown to attract, motivate, and retain employees as well as to serve as a reinforce of employee performance (Wilson, 2003). Money serves as an incentive primarily because it can be exchanged for other desirable outcomes such as goods, services, or privileges (Ball, 1996). Although many forms of financial incentives are available (e.g., vacations, gift certificates), lump-sum bonuses are becoming a commonly used pay method to retain and motivate employees. Lump-sum bonuses are cash payments to employees that are not added to employees' base wages and therefore do not cause larger fixed labor costs in the long run (Camerer, 1998). In addition, lump-sum bonuses are

a part of compensation that is not guaranteed and are usually paid in recognition of some level of performance attainment or goal achievement.

To make financial incentives more effective, (Anderson, 200) has suggested that administrative or application processes be given attention. First, the more closely the financial incentives are tied to performance, the greater the improvement in a variety of outcomes. For example, recent findings indicate that reward contingencies moderate the performance–turnover relationship in that higher performers reported more turnover intentions when rewards were not perceived as contingent on performance explained this phenomenon by suggesting that high-performer turnover is greater under the condition of low reward contingency because the desire to change jobs should increase as reward inequity increases. Therefore, when a weak pay-for-performance link exists, turnover of the best

people may occur because they perceive that their high performance will not be sufficiently rewarded.

The financial incentives movement was found in Africa at later time, in 2007 south African government introduced the occupation –specific dispensation (OSD), a financial strategy to attract, motivate and retain health professionals in the public health sector and also now African governments may offer financial incentives for doctor's travels to Ebola –Stricken (Morris, 2007).

Some experiments where they concluded that monetary incentives increases performance in most of the times. However, it is not always the case that offering financial incentives leads to better performance, even more, sometimes it even reduces effort, since other factors come in that influence the decision on the subject. Also (Ziebart, 1995) conclude that “very high incentives may potentially decrease decision quality by increasing negative effect.”

It is obvious that the factors influencing performance are difficult to determine and they interact with each other through various relationships. In research, contradicting results exist sometimes.

The topic is of relevance since a lot of research has been conducted on the effect of financial incentives, but contradicting results exist whether financial incentives increase motivation, effort and concomitant performance on employee. Therefore, it is important to gain knowledge about the conditions in which financial rewards improve performance or do not to create insight in which environment to apply them. Factors which can influence the effectiveness of incentives will be discussed. Moreover, intrinsic motivation and extrinsic rewards are two kinds of human motivation that play an important role in the workplace. There is a huge difference in performance level between motivated and unmotivated employees, which causes a problem for managers. (Amabile, 1993) Therefore the purpose of this research is to study and analyses the effect of financial incentives on employee performance in commercial banks in Mogadishu Somalia.

2.0 LITERATURE REVIEW

Financial incentives are the most important and influential factors to the individual's Desire to work when such wages are appropriate and capable of satisfying his needs. On the contrary, low Payment that is not appropriate to his efforts of work leads to the low efficiency of productivity (al-harhi, 1999).

According to (lawzi, 2015) financial incentives are set to satisfy basic human needs, encouraging workers to do the best, of of worperformedce, the recruitment of their capabilities and increase the level of their competences such as salary, bonuses, allowances, profit sharing and rewards. Bonuses are a traditional form of rewarding and incentivizing employees. They consist of one-time payments that augment ongoing wage payments. For example, a group of workers may receive a bonus at the end of the year or upon the completion of a special project. Bonuses are salary-based, as when they take the form

of an additional paycheck, or employers can choose to issue them at a flat rate for all workers. Bonuses can depend on overall company performance, individual performance or meeting a specific department or team goal. Premium pay is another option for employers who wish to offer incentives for work. One of the most common examples of premium pay is a voluntary wage increase for overtime, work on a holiday or hours over a weekend. Premium pay rates are usually based on a worker's regular hourly wage and add a percentage, such as double-time or time-and-a-half. Premium pay can motivate workers to spend extra time on their task to meet a deadline or volunteer for additional hours so that the business doesn't need to spend the time and money needed to recruit additional staff. Commissions serve as both a reward and motivation for workers who earn them. A commission can refer to a percentage of the business a sales representative brings in, or a flat rate based on performance. Some workers, such as auto and insurance sales professionals, earn only commission. Others, including specialty retail sellers, are more likely to earn a low base wage in addition to a commission based on actual sales. Employees who earn commission see a direct link between their performance and their pay, which encourages motivation and promotes healthy competition within a workforce. (lawzi, 2015) State that recall can be positively affected by effort in the presence of monetary incentives. Consequently, judgment biases are diminished since financial incentives encourage the individual to work harder at recall and hence improve performance.

(Camerer, 1971) Conducted an experiment and concluded that in case a reward was offered, intrinsic motivation declined because of the motivation was attributed to the external factor. The intrinsic motivation hereby becomes less important and when the external factor, i.e. monetary reward, is removed, the declined intrinsic motivation leads to a decrease in effort. Later, Deci and (al-harhi, 1999) posit the cognitive evaluation theory which suggests that intrinsic motivation is affected by external factors and investigates what consequences the effect of those external events have on intrinsic motivation. External events can have two functional aspects: a controlling and an informational aspect. The controlling aspect pressures people toward specified outcomes. The informational aspect contains feedback in the context of self-determination. From research, it appears that the largest body of evidence confirms that the controlling aspect diminishes intrinsic motivation more than the informational aspect enhances intrinsic motivation. However, in practice, it is very hard to determine which part of the motivation is intrinsic and which part comes from external factors. Although intrinsic motivation plays an important role, it is difficult to control for.

(Ziebart, 1995) Include another variable that affects the relation between financial incentives and performance, namely affect. According to Zevon and Tellegen (1982), affect has two independent dimensions: positive affect and negative effect. Positive affect is characterized by feelings of excitement, joy and enthusiasm while negative affect is the presence of emotions such as fear, sadness and anger. Increased negative affect can reduce the information processing ability (swimth, 1985), so participants do not process all of the available information and make decisions too quick. Stone and Ziebart conclude in their research that very high monetary incentives are likely to decrease decision quality, which is caused by the increased negative effect. However, some other economists argue the opposite.

3.0 METHODOLOGY

The study was conducted through a descriptive study; the purpose of descriptive research is to describe an accurate profile of persons, events or situations. In addition to, this study was used quantitative approach. Quantitative is any data collection technique (such as a questionnaire) or data analysis procedure (such as graphs or statistics) that generates or uses numerical data (Saunders, 2009). Was conducted through questionnaires

This study primarily focus on organizations who provide or not provide financial incentives to get the Effect financial incentives on task performance in Mogadishu, however researcher will select a commercial bank in Mogadishu Somalia such as Dabashiil bank, Salam Somali bank and International Bank of Somalia in HQ Branch the sampled population of this study consists of (230) for the three organization staff consisting of employee, managers and security guard

The researcher used a structured Questionnaire tool as a collecting data; the selecting of this tool has been guided by the nature of data to be collected. Questionnaire tool was administered to collect quantitative data from the selected respondents. The researcher preferred this method because it is the most appropriate in collecting view respondents whose place was geographically spread. The questionnaire created through the process of adapted (mixed) in the literature and then made Pilot test on sample of expertise, and we made the results that we got a pilot test. On re-correct, and finally though the operation, the study used five point liker scale.

After approved the proposal the researcher was requested student affairs office a Letter that informing the researcher investigating academic research. After receiving an introductory letter from the office the researcher were requested member of population to fill questionnaire with un-bias and honestly. Finally the researcher distributes questionnaires to selected schools then; researcher was analysis data by using Statistical Package for Social Sciences, (SPSS Version 20).

Researcher was considered ethical issues during research project, and this can be accomplished by exercising privacy, confidentiality and anonymity. Any anonymity and confidentiality of the secret information will give high priority and this study will strictly, only academic purpose and that utmost confidentiality would be observe. Moreover, the researcher respects to maintain individual self-confidence.

4.0 SUMMARY FINDING OF THE STUDY

Based on the findings in objective one presented that tothe respondents agreed that having paid bonuses increase Employee performance. As shown by mean of 2.46. The respondents also agreed that Level of fairness in giving bonuses affects Employee performance. The respondents also agreed that bonuses are equal opportunity for employee. Was based on finding in objective one presented that to determine the commissions The respondents agreed that rate of commission achieve profitable goals. As reported by a mean of 2.44. The respondents also agreed that amount of commission increase Employee performance. As shown by mean of 2.36 the respondents also agreed that commission influence productivity level increases employee performance. This study to examine the influence of financial incentives on employee performance in Commercial banks in Mogadishu Somalia, respondents' level of agreement on specific affects employee performance. The respondents agreed that financial incentives level of clarity to achieve profitable goals, obtaining a mean of 2.64. The respondents also understanding financial incentives have affect employee performance, obtaining a mean of 2.44. The respondents also agreed that responsibility and professionalism to increase employee performance. The respondents also agreed that incentives toward employee higher performance, as shown mean of 2.40. The respondents also agreed that loyalty toward enhances employee performance. Present the regression results. From the model summary it is clear that the adjusted R² was .937 indicating that a combination of commission, bonuses and specific employee performance at commercial bank companies in Mogadishu Somalia.

5.0 RECOMMENDATION

The findings of this study which was the effect of financial incentives on employee performance in commercial bank in Mogadishu Somalia., Therefore researcher recommended the following.

- 1) The researcher recommended that that companies/organizations use financial incentives in order to get well employee performance.
- 2) The researcher suggest that companies/organizations should have good pay system to their employee in order to be the reward fair for their responsibilities

- 3) And lastly employee performance should be geared on if you improving to get satisfied staff or employee, you provided how to attain height high employee performance so management should take time to study what type of financial incentives to pay

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