ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE

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EMPLOYEE'S PERCEPTION OF PERFORMANCE BASED INCENTIVE SCHEMES AND ITS INFLUENCE ON EMPLOYEE PRODUCTIVITY: THE CASE OF AFRICA VILLAGE FINANCIAL SERVICES S.C.

By

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Declaration

I, the undersigned, declare that this study entitled ―Employee‗s Perception of Performance Based Incentive Schemes and Its Influence on Employee Productivity" is my own work. I have undertaken the research work independently with the guidance and support of my research advisor. This study has not been submitted for any program in this or any other institutions and that all sources of materials used for this thesis have been duly acknowledged.

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This is to certify that the thesis prepared by Melkamu Wogari, entitled ―Employee's Perception of Performance Based Incentive Schemes and Its Influence on Employee Productivity" submitted in partial fulfillment of the requirements for the Degree of Master of Human Resource Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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May God Bless You!

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List of Acronyms

AVFS: Africa Village Financial Services

MFI: Microfinance Institutions

SD: Standard Deviations

SPSS: Statistical Package for Social Sciences

EPBP: Employee's Perceptions of Bonus Pay Incentive Schemes

EPBP: Employee's Perceptions of Merit Pay Incentive Schemes

PBR: Payment by Result

Abstract

The general objective of the study was to investigate and assess the relationship between employee's perception of performance based bonus and merit pay incentive scheme practices of Africa Village Financial Services and its influence on employee productivity. To undertake this general objective, four specific objectives with their underling hypothesis were designed and assessed by quantitative & qualitative research design. To set background information on the proposed hypothesis the theoretical, conceptual and other related literatures were reviewed and most of the literature finding implies that perception of employees of performance based bonus and merit pay incentive system has a significant and positive influence on employee productivity. The required data for conducting the research was obtained through structured and unstructured questionnaires. The structured questionnaire was adopted from two prior related studies. To check the reliability of the adopted instruments, the Chronbach's coefficient alpha test was carried out. AVFS has only 98 total numbers of employees and the research was conducted on the entire population. Basically, a total of 98 questionnaires were distributed to the targeted employees, among these 90 were returned, which means 8 responses were remained unreturned. Thus, 90 returned questionnaires (i.e. representing 92% of response rate) were analyzed using statistical package for social science (SPSS version 20). In this analysis, descriptive statistics, correlation and multiple regressions analysis were performed. The descriptive finding of the study showed that AVFS employees have experienced high level of positive perception towards the existing performance based incentive scheme practices leading to a high level of employee productivity. The correlation analysis result also indicates employee's perception of performance based bonus and merit pay incentive scheme has positive and significant relationship with employee productivity. Moreover, the finding of multiple regression analysis indicated that employee's perception of performance based incentive practices has positive and significant influence on employee productivity. The overall analysis revealed that the positive perception of incentives schemes are giving satisfactory results in improving employee productivity apart from increasing the incomes of AVFS employees. Therefore, it is commended that, the company has to continue implementing performance based incentive practices in the best possible way and give more emphasis on the magnitude of incentives so that the level of employee productivity can be further enhanced.

Key Words: Incentives, Employee Productivity and Employee Perceptions.

Chapter One

1. Introduction

1.1 Background of the Study

One of the main objectives of financial institutions like Banks are mobilizing resources mainly domestic savings and channeling them to the would-be investors. This intermediation role of financial institutions takes different forms in different economic systems. The major financial institutions operating in Ethiopia are Banks, Insurance companies and Micro-finance institutions.

Started as a poverty alleviation strategy some four decades ago, the global situation in Micro financing has become full of new initiatives and innovative approaches. Microfinance is considered by many governments in developing nations as a potent tool in reducing poverty. Over the years and in a growing number of markets, the maturing Microfinance sector is becoming more competitive and commercially oriented. In these markets, Microfinance Institutions have demonstrated that Micro entrepreneurs are lucrative customers worth pursuing and they are creating more client-centred operations (McKim and Hughart, 2005).

Africa Village Financial Services Share Company is one of the Microfinance institutions established and operating according to Micro financing Business Proclamation No.626/2009 and National Bank Directives. They are evolved as an economic development approach intended to improve low income groups.

Microfinance institutions strive to improve institutional outreach and to deliver acceptable financial performances. Nonetheless, there is a growing recognition that some Microfinance institutions in Ethiopia have not paid adequate attention to optimizing the processes used to deliver their products and services. The Microfinance industry is beginning to mature, and with maturity it is certain that change comes. The ultimate goal of Microfinance institution is to assist their clients in their economic endeavors by providing the clients with quality services, such as loans or deposit facilities. Incentives are rewards for achieving certain targets or making a certain effort. According to Holtmann (2005) staff incentive schemes are designed to motivate

staff to achieve high performance levels, change behaviors and change attitudes. They provide an avenue through which management can effectively link performance and competence of the employees. Performance-based cash payouts are most frequently used, but non-monetary incentives are also possible. However organizations offer varied incentive schemes for their employees.

Staff incentive schemes have been in use in a variety of industries for a considerable period of time. The purpose of staff incentive schemes is to improve employee's efforts in their jobs, enhance productivity and reduce high staff turnover rates. Holtmann (2005) also contend that incentive schemes must be transparent so that staff members affected should be able to easily understand the mechanics of the calculation. Well-designed staff incentive schemes can have positive and powerful effect whereas poorly developed schemes can have serious detrimental effects. In addition, it is essential that the incentive scheme be perceived as being fair, and thus the goals set out by the scheme must be attainable and better performing staff members must indeed deserve a better reward.

Many financial organizations are facing significant challenges particularly in terms of providing incentives to employees. And above, the provision of Microfinance services is extremely labor-intensive. Employees occupy a strategic role and position in any organization. They are responsible for converting inputs to productive outputs. As they are the key to the productive outputs, they ought to be effectively and adequately compensated for their effort.

Perception is the process of organizing, interpreting and integrating external stimuli received through the senses. It is the mental process involved in identifying and subjectively interpreting objects, concepts, behavior and the attainment of awareness, insight and understanding (Cole, 2005).

Employee perception is a factor that can make a huge difference in the quality of the workplace. Perception is the process people use to make sense out of the environment by selecting, organizing and interpreting information from the environment (Daft, 2000). The existing different benefit schemes and the way how they relate to the work assigned can have a huge impact on the perception of an employee.

1.2 Statement of the Problem

The performance of an employee depends on the strength of employee incentive schemes used in an institution. The employee's reactions to the different type of incentive schemes can also be an important condition to improve the employee's performance. Recently, scholars have begun to argue that employee emotions and perceptions are important in determining the efficacy of employee productivity. However, it is prominent that many of the employers do not pay enough attention to their employees, which may be due to the struggling for cost reduction and great desire for sustainability.

Some years ago, Africa Village Financial Services had experienced low employee productivity, high turnover and low profit margin. After a while, in order to improve productivity and increase its overall performance, the company has designed new comprehensive performance based incentive schemes. Following the approval by the Board of Directors, management has started to implement the designed incentive schemes (AVFS Report, 2015). In an attempt to positively influence employee behavior & future performance progresses, it has been frequently argued that, employee must experience positive reactions in the practice of the implementations of incentive schemes, if not; any incentive packages will be doomed to failure.

Currently, most employees of the company are discussing informally about the incentive schemes at hand, as regards to its fairness, transparency, effectiveness and ability to boost their productivity and other related matters, but a due attention was not yet given to examine their perceptions toward the new incentive schemes being implemented. At times, strong arguments on the existing incentive schemes were taking place and dissimilar perceptions of incentive schemes among employees were being noticed. Moreover, some sorts of doubts exist with regard to the influence of employee's perception of incentives on employee productivity and its importance in improving performance. Such practically existing profound issues and the presence of differences in perceptions of employees about the existing incentive schemes elicited the researcher to study and recognize the perception of employees with the current incentive schemes and assess its influence on employee productivity.

Therefore, the specific problem of the study is to be aware of the employee's perception of the existing incentive schemes by emphasizing on performance based bonus and merit pay incentive schemes and scrutinize its influence on employee productivity.

1.3 Objective of the Study

The general objective of the study was to investigate and assess the relationship between employee's perception of performance based incentive schemes and its influence on employee productivity. More specific objectives were to:

1. Assess how employees perceive about the existing performance based bonus and merit pay incentive schemes.
2. Assess the relationship between employee's perception of bonus and merit pay incentives and employee productivity.
3. Examining the employee's perception of performance based bonus and merit pay incentive schemes and its influence on employee productivity.
4. Examine whether the influence of employee's perception of merit pay incentive scheme has larger effect on employee productivity when compared to bonus pay incentive scheme.

1.4 Research Questions

Based on the problem statements of the research, the following research questions were anticipated and carefully addressed during the research study:

1. How employees perceived the current performance based bonus and merit pay incentive scheme practices of the company?
2. What is the relationship between employee's perceptions of performance based bonus and merit pay incentive schemes and employee productivity?
3. How the employee's perception of performance based bonus and merit pay incentive schemes have an influence on employee productivity?

1.5 Research Hypothesis

Hypothesis is a tentative explanation that accounts for a set of facts and can be tested by further investigation. According to Marczyk (2000), it is an attempt by the researcher to explain the

phenomenon of interest. In order to address the objectives of the study and deal with the research questions, the following null hypotheses were formulated and lastly tested in the course of the research study:

Null Hypothesis (Ho):

1. Employees have no positive reaction about the currently existing bonus and merit pay incentive scheme practices of the company.
2. There is no significant and positive relationship between employee's perception of bonus pay incentive schemes and employee productivity.
3. There is no significant and positive relationship between employee's perception of merit pay incentive schemes and employee productivity.
4. Employee's perception of bonus and merit pay incentive scheme has no influence on employee productivity.
5. The influence of employee's perception of merit pay incentive scheme has no larger effect on employee productivity when compared to bonus pay incentive scheme.

1.6 Significance of the study

The study was largely aimed to investigate and assess the relationship between employee's perception of performance based bonus and merit pay incentive schemes and its influence on employee productivity. Incentive schemes have been a subject of great interest for different companies mostly in Microfinance industry and researchers. Therefore, the result of this study is significant in many aspects. Firstly, it advances knowledge and understanding on how employee's perception of incentive schemes influences employee productivity in particular and the overall performance of the company in general. Secondly, it will help for the identification of the current employee's perception of incentive schemes and will send some signals to the human resource management of the company to have special focus on the overall implementation of incentive schemes and weaken those factors leading to negative perception of employees toward the existing performance based incentive schemes. Thirdly, it gives the researcher the opportunity to gain deep knowledge in the practices of performance based bonus and merit pay incentive schemes.

1.7 Scope of the Study

The research was delimitated by many factors. Some of them were:

Firstly, since the study is an academic research with limited time period, the researcher targeted only Africa Village Financial Service Share Company which is one of the Microfinance institutions being operating in the country. Secondly, the objective of the study was to examine the employee's perception of performance based bonus and merit pay incentive schemes and its influence on employee productivity, i.e. only bonus and merit pay incentive schemes and its influence on productivity were investigated. In real practices, there are other factors which could affect the level of employee productivity like culture, employee recognition, personal ability, commitment, engagement and other type of rewards or incentives among others. In general, other variables or factors that can affect employee's perception of incentive schemes and employee productivity were not addressed.

1.8 Limitations of the Study

Unfortunately, research limitation is inevitable in any field of studies. By the same logic, few respondents were not willing to respond, since human beings are tending to hide what they really feel from within due to different reasons, as a result, conclusion of the findings might be affected. Lack of empirical studies conducted in Microfinance industry on employee's perception of performance based incentive schemes and its influence on employee productivity particularly in the context of Ethiopia was another limitation.

1.9 Operational Definitions

The following operational definitions were used for the purpose of this study.

Perception: The process by which an individual gives meaning to the environment.

Employee: People employed by employer for a job and earn salary or wages in return.

Incentives: Rewards to encourage employees to achieve certain objectives or meet a target.

Performance Based Incentive: Any incentive scheme that seeks to link pay to individual performance usually based on achievement of pre-determined criteria, goals, or objectives.

Rewards: Recognition to employees for their achievements and contributions.

Employee Productivity: is the productivity that employee of the institution can produce with the least effort. It is the productivity of employees in terms of managing clients or loan portfolio of the institution which can be calculated by dividing total number of clients or total loan portfolio of the institution by the total number of employees of the institution.

1.10 Organization of the Study

The thesis was organized in the following structures:

The first chapter is introductory part which consists of back ground of the study, statement of the problem, objectives of the study, research question, research hypothesis, and significance of the study, scope of the study, limitation of the study, operational definitions and organization of the study. The second chapter contains literature review: in this section, empirical, conceptual, theoretical and other literatures related to the title of the study were thoroughly reviewed. The third chapter includes the research design & methodology, source of data; sampling design and method of data analysis. The fourth chapter is dealing with data analysis, discussion and summary of results. The fifth chapter is about conclusion, recommendations and future implication of the findings.

Chapter Two

2. Review of Related Literatures

This chapter is assumed to be the foundation for the development of the study. An overview of the previous researches linked to employee's perception of incentive schemes and its influence on employee productivity were thoroughly analyzed. Moreover, other literatures that are associated to the research under study were reviewed and finally a clear conceptual framework was developed.

2.1 Overview of Incentive Schemes in MFIs

In many of the more ―traditional" industries, monetary and non-monetary performance-related incentives for employees are a common element of compensation policies. In light of the strongly positive relationship between staff productivity and financial efficiency, a closer study of the design and efficacy of incentive schemes appears more than appropriate. Among microfinance practitioners, the issue of appropriate incentive schemes for staff has also occupied a significant degree of prominence for a long time. Accordingly, there is no question that performance-related pay will remain an important element of the compensation strategies of almost all firms and organizations.

In fact, Microfinance practitioners have long realized the importance of appropriate products, policies and incentives for clients. Proper incentives and mechanisms also need to be devised to ensure optimal performance of the employees of microfinance institutions (MFIs). Employees, credit officers in particular, can have a critical effect on the performance of an MFI, accounting more than half of an MFI's costs in the form of salaries and almost all of the outputs i.e. promotion, screening, processing, monitoring, and enforcement of loans. Furthermore, it is often difficult for managers to directly monitor credit officers because they can spend up to 75% of their time outside of the office. Both of these factors indicate a great need for effective employee incentive mechanisms (McKim and Hughart, 2005).

According to McKim et al., (2005), over the past five to ten years, MFI's seem to have been a noticeable shift from traditional compensation towards adopting systematic and formal staff incentive schemes to motivate their employees. Generally, ―incentive schemes‖ refer to a system of financial and non-financial awards utilized to reward employee performance. This shift has been accompanied by another trend towards ―commercialization‖ of the microfinance industry, characterized by increased competition, a shift from donor assistance towards capital markets, and a greater focus on sustainability and profitability.

Well-designed staff incentive schemes can have powerful effects on the performance and productivity of microfinance operations. Accordingly, staff incentive schemes are also a potential tool for boosting the performance of Microfinance industry in general. Incentives or payment-by-result (PBR) schemes relate the pay of workers to the number of items they produce or the time taken to do a certain amount of work. The main types of schemes for individuals are piecework, work-measured schemes, measured and performance-related pay. Incentives that are properly aligned with business strategy are extremely powerful. They encourage people to think ―outside of the box‖―not based on the way they have always done things―but rather on how their customers see them and the service(s) they expect to receive. Incentives change behavior, build teamwork, and encourage individual endeavors (Holtmann, 2005).

According to Holtmann et al., (2005), incentive schemes tie pay increase to performance and have been used by organizations worldwide with remarkable success. Incentives can be both performance based and non-performance based incentives. Performance based incentive schemes link the employees' rewards directly to their performance (either their individual performance or to the performance of a group). Thus, poor performance is not rewarded and well-designed staff incentives assure that staff can benefit by working better and harder. Non-performance based incentives include all kind of benefits which staff receive – regardless of their performance.

Hartman et al (1994) state that incentives are one technique by which employees carry out their end of the employment contract, that is, compensating employees for their efforts. In general,

an incentive scheme 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 performance behavior in the employee.

Incentive schemes as defined by Griffin (2000) are special pay programs designed to motivate high performance. Incentive schemes attempt to link at least a portion of pay to job performance to improve employee performance. Incentives, as often called, should be aligned with the behaviors that help achieve organizational goals or performance. Incentives are either individual or group (organization wide). As Griffin (2000) stated, 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 employees 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.

Hence, it is possible to understand that without offering adequate incentives to employees, it is very implausible that organizations can maintain the desired employee performance. Thus, it is very essential to formulate an integrated system of incentives commensurate with the advancement of work to serve the general objectives of increasing productivity, providing high quality services, achieving competitive share in the market and maintain customer satisfaction.

2.2 Perceptions and Incentive Schemes

In this section the researcher comprehensively reviewed the concept of perceptions, incentive schemes and types and its purposes, explored literatures on performance related pay particularly bonus and merit pay incentive schemes, employee performance and the different productivity facets and lastly expressed the conceptual framework of the study.

2.2.1 Perceptions

According to Daft (2000), perceptions are the way people organize and interpret their sensory input, or what they see and hear, and call it reality. Perceptions give meaning to a person's environment and make sense of the world. Perceptions are important because people's behaviors are based on their perception of what reality is. Therefore, employees' perceptions of their organizations become the basis on which they behave while at work. As stated by Daft (2000), perception of employees is influenced by internal and external factors leading them to see some perceived objects, persons or events differently. External factors could include size, intensity, contrast, repetition, motion, novelty, status and appearance. Internal factors in perceptions are characteristics of the perceiver. The perceivers have a tendency to use themselves as a basis for perceiving others, events, etc. Internal factors that can influence perceptions of employees are needs and motives, past experiences, self-contest and personality.

Perception surveys are most often used when one is trying to find out how people understand or feel about their situations or environments. They are used to assess needs, answer questions, solve problems, establish baselines, analyze trends, and select goals. Surveys reveal what exists, in what amount, and in what context. The two main reasons why companies conduct surveys are to get feedback on past or current performance and/or to obtain information for future direction. However, they can be used far beyond just a way to gather information. They can identify gaps and provide recommendations to rectify between what is said and what is actually practiced; highlight differences between management and employees, realizing that the larger the gap, the greater the problem; provide an opportunity to connect and interact with employees; identify gaps between company's goals and its actual policies and serve as internal benchmarks, a measurable and quite useful means for companies to follow its own trends and progress (Cole, 2005).

2.2.2 Employee Perceptions of Incentive Scheme

Employee perception is a factor that can make a huge difference in the quality of the workplace. When employees view the employer, their work, and their relationships within that workplace as being positive, there is a good chance the employee will be productive and remain with the

employer for a long time. Negative perceptions of the company and the working environment can cause qualified employees to seek opportunities elsewhere. The benefits paid and how they relate to the work assigned can have a huge impact on the perception of an employee. For many people, clear and concise communication within a working environment is essential. When employers choose to not create channels of communication with employees that allow each party to share information with the other, chances are that employee perception of the company will be less than ideal. Lack of communication can go a long way toward setting up an us/them mentality that breeds negativity in the workplace, opens the door for rumors to develop, and can undermine the morale of even the most devoted of employees. Since most people work in order to earn a living, the matter of wages or salaries and benefits is also important to employee perception. As long as the employee feels properly rewarded for his or her efforts, there is a good chance the company will be perceived as being worth the effort (Cole, 2005).

2.2.3 Incentive Schemes

An incentive is something that motivates an individual to perform an action. An incentive program is a formal scheme used to promote or encourage specific actions or behavior by a specific group of people during a defined period of time. Incentive programs are particularly used in business management to motivate employees, and in sales to attract and retain customers. All businesses use pay, promotion, bonuses or other types of rewards to encourage high levels of performance. There would almost certainly be a positive effect on motivation, especially if there is already an incentive scheme in place for employees (Holtmann, 2005).

2.2.3.1 Types of Incentive Schemes

Generally, incentive schemes are classified into two types: financial incentive and non-financial incentives. According to Armstrong (2007), financial incentives aim to motivate people to achieve their objectives; improve their performance or enhance their competence or skills by focusing on specific targets and priorities. They are designed to provide direct motivation. They tell people how much money they will get in the future if they perform well – do this and you will get that. Non-financial incentive schemes on the other hand are directed at moral motivation to serve in the interest of the community.

Chingos (2002) classified incentives as team/group and individual: Team incentive is an incentive based on the combined accomplishments of a team or group, typically against specified goals whereas individual incentive is an incentive based on achieving individual goals.

Holtmann and Grambling (2005) classified performance based incentives as bonus pay, merit pay, profit-sharing plans, gain-sharing plans, employee stock ownership plans, Prices for best performers, employee relationship marketing, commendation letters and promotion. With respect to this study, reviewing performance based bonus pay and merit pay incentives could be more sensible.

2.2.3.2 Purpose and Requirements of Incentive Schemes

According to Carat et al, (1982), the general purpose of incentive schemes is to improve employee effort in their jobs. By relating incentives to performance, an employer is attempting to induce workers to turn out a greater volume of work thereby lowering operating costs. Specifically, the purpose of incentives to both an employee and the organization is to improve motivation, tie pay to performance, and recognize differences in employee performance, increase competition among employees, attract and retain productive employees, reduce absenteeism, reduce idle time, relate increases in compensation to increases in productivity and direct efforts toward achieving organizational objectives.

Holtmann (2005) contends that if incentive schemes are to be effective, they must be accepted by those they target. To assure acceptance, they should be in line with two principles, i.e. fairness and transparency, according to which employees' judge their remuneration. According to the author, fairness and transparency are the two most important requirements for staff incentive schemes in financial organizations. Pertaining to fairness as Holtmann (2005) mentioned, the goals or reference standards set out for employees must be attainable, staff members who perform better than others should receive higher compensation and the compensation system should reflect the hierarchical levels within the organization. As to the transparency of the incentive schemes, the system should be kept simple enough that they can be understood by all who are affected by them and as much as possible, it should be based on measurable, ―objective", variables rather than subjective performance indicators. In addition,

the scheme should not be changed too frequently – otherwise the organization risks making the relationship between performance and compensation unpredictable for staff members (Holtmann, 2005).

2.2.4 Performance Related Pay

The logic behind pay-for-performance compensation is that linking pay to performance can motivate individuals to achieve or sustain greater performance levels (Banker, 2001). As a result, a number of forms of pay-for-performance plans have emerged, with different mechanisms through which performance is linked to pay and with different methods of allocating awards (Milkovich, 1990).

In general, research has found that pay-for-performance plans do help achieve desired results, at both the individual and organizational level (Banker, 2001). Furthermore, despite the abundance of types of pay-for-performance plans, there are only a few instances of research that have sought to examine the potentially different effects that various forms of pay-for-performance may have. For this thesis research paper, performance based bonus and merit pay incentive schemes were emphasized.

2.2.4.1 Bonus Pay

According to Milkovich & Newman (2005), bonus pay is a monetary reward given to employees in addition to their fixed compensation. Bonus pay is the most common form of cash incentive. Bonuses can be accrued and paid out at different intervals, such as monthly, quarterly, or annually. Monthly bonus payments are very common for loan officers. Bonus sizes vary between 10% and 50% of the total pay. This pay plan is also apparently based on individual performance, but bonuses do not increase employees' base pay and therefore are not permanent (Sturman & Short, 2000).

As stated by Sturman & Short (2000), bonus pay has been widely used in organizations to motivate employees' performance and a number of surveys reported that the popularity of bonus pay is increasing. Bonus pay is attractive from the company's point of view because the one-time cash reward links pay to performance but does not increase fixed labor costs.

According to Churchill (2001), the effectiveness of incentive systems depends on the cultural environment in which a microfinance institution operates. Timing is another critical issue. It is useful to phase in an incentive system gradually. For instance, during their training period, loan officers need to make mistakes in order to learn from them, thus they should not be penalized. Later on, as the whole organization moves up the learning curve (i.e. average loan officer productivity increases) the bonus system can be adjusted. The introduction of new products also requires changes to the bonus system. Implementation of a bonus system at the loan officer level usually generates the need for incentive systems at other layers of the organization.

Churchill (2001) state that there is ample empirical evidence that the introduction of staff incentive schemes can make positive contributions to the staff efficiency. Some of the most efficient Latin American MFIs with very high loan officer productivity use financial incentive systems. There is strong evidence that a well-designed monetary incentive system for lending staff does indeed boost productivity. But a bonus system is only part of an overall culture of high productivity. Every bonus system must be carefully designed and adapted to the local situation. Moreover, the incentive system must be fair. Each staff should feel that better performance is adequately rewarded and that on average the goals set by the system are achievable. This requires continual efforts by managers to communicate fairness as an overall objective of the system, so that the inevitable adjustments in the bonus formula are accepted by each as routine and not interpreted as breaches of trust or as a lack of appreciation for their efforts. Incentives should be transparent so that employees can adjust their actions according to a few simple parameters (Churchill, 2001).

2.2.4.2 Merit Pay

Heneman & Werner (2005) defined merit pay as a form of reward in which individuals receive permanent pay increases (raises) as a function of their individual performance ratings. The pay plan is usually based on an individual's performance and is assessed by an employee performance appraisal. Merit pay as pay-for-performance has been frequently used in organizations (Schwab & Olson, 1990). Although it can be different across industries, a number of recent surveys have demonstrated that 80% to 90% of organizations use merit pay plans as for employee performance improvement tool (Heneman & Werner, 2005).

According to Heneman & Werner (2005), merit pay plan involves salary increases for those employees who have produced the best performance during a certain period of time (often one year). Annual salary increases might range from 0% for weaker performers and 5% for average performers to 10% for strong performers. While most of the other incentives assure that staffs always have to work hard in order to receive the reward, employees will feel the merit pay forever. Hence, merit pay schemes are not only performance based, but also tenure based. While they can contribute to low staff turnover rates, they can cause high disparities in the salaries of junior and senior staff because of the past performance of senior staff. Despite their drawbacks, merit pay schemes are widely used in practice (Heneman & Werner, 2005).

Campbell et al., (1998) asserted that the key characteristic of merit pay, compared to other forms of pay-for-performance, is that merit pay permanently increases employees' base pay. This characteristic differentiates merit pay from the other forms of pay-for-performance. In terms of expectancy theory, all else equal, merit pay has the potential for greater valence than other pay plans. That is, from the employees' point of view, because the present value of a 1 Birr raise (permanent increase) is greater than the present value of a 1 Birr bonus (a one-time payment, be it in the form of a lump-sum bonus or long-term incentive), the valence of a permanent increase should be greater than the valence of an equal dollar amount of one-time payment.

In accordance with Campbell et al., (1998) despite the ways that merit pay may seem to incentivize employee performance, the effectiveness of merit pay has been repeatedly questioned. Some researchers have been concerned that organizations often failed to link merit pay to employees' ―true" performance because of measurement error associated with their performance appraisal system (Campbell et al, 1998). In addition, the difference in merit pay between the best and the worst performer is often not large (Gomez-Mejia & Balkin, 1988). Moreover, when viewed through the lens of expectancy theory, they suggest that the merit pay is often poorly implemented because they fail to generate expectancy.

2.2.5 Employee Performance

Tinofirei (2011) indicated that the success of an organization depends on a numerous factors and resources, one of which is its employees. Even the most automated sectors still depend on

those human resources to be motivated to plan, project, implement, evaluate, assess, write, edit, design and direct where the organization should be going in order to achieve its set objectives. Employees are organizational resources and have a variety of factors that affect their performance. Employee performance is the successful completion of tasks by a selected individual or individuals, as set and measured by a supervisor or organization, to pre-defined acceptable standards while efficiently and effectively utilizing available resources within a changing environment.

Employee performance is referred to as whether a person executes their job duties and responsibilities well. Performance is a critical factor in organizational success. The maximum level of workers performance happens when they feel their endeavor is rewarded and compensated completely. There are many factors that affect employee performance like working conditions, employee and employer relationship, training and development opportunities, job security, and company's overall policies and procedures for rewarding employees.

Among the employee performance driving factors commitment, motivation, and satisfaction and loyalty is the most determinant elements that need be to be stressed. Commitment is the knowledge, skills, abilities and experience of the work force which is useful to the organization only if the employees are willing to apply it to the achievement of the goals of the organization. Commitment is the measure of the relative strength of an employee's identification with and involvement in a particular organization (Matheus & Zajac, 1990).

Continuous staff training and development and involving employees in to decision making can enhance staff commitment. Davis states that when employees are effectively incentivized, then the organizations will experience increased productivity and improved quality of output. Similarly, when people are valued, shown trust, listened to and encouraged to do better, they reciprocate by being responsible and productive. Consequently, commitment and loyalty of the employees to the organization is enhanced and thereby staff productivity is better enhanced.

A motivated workforce is essential because the complete participation of employees will certainly drive the profitability of the organization. According to Denton (1991), a motivated

workforce will lead to greater understanding, acceptance, commitment to implementation, understanding of objectives and decision making between management and employees. Holtmann and Grammling (2005) emphasized that selection and training of new staff members is costly, making experienced MFI employees a valuable resource. Accordingly, the authors recommended that management should be interested in anything that might improve employees' motivation, including staff incentive schemes.

Satisfaction is a person's feelings of pleasure or disappointment that results from comparing a product's perceived performance or outcome with their expectations (Kotler & Keller, 2009). Employee satisfaction is a feeling of an employee regarding his or her status of job and how well he or she is attached with the organization. According to Armstrong (2007), there is no research evidence that there is always a strong and positive relationship between employee satisfaction and employee performance.

Wiener and Verdi (1980) explained that loyalty is the moral value and correct thing and it's more towards personal sacrifice to help the organization and not criticize it. To motivate excellence in customer service; an institution may implement a ―Staff Loyalty Programme". It attempts to strengthen the existing relationship between staff and management by offering rewards that encourage good performance and staff loyalty. Since employee loyalty evolves over time, fostering loyalty fits into long-term incentives such as profit-sharing plans or Employee Stock Ownership Plan. In view of that, high level of employee performance is significantly associated with high level of loyalty.

2.2.6 Employee Productivity

In accordance with Tinofirei (2011), productivity is the sustained rate at which employees are achieving the agreed minimum outputs of work as agreed to within an organization. It is the rate at which goods are produced, especially in relation to the time, money and workers required to produce them. Holtmann and Grammling (2005) conducted a preliminary research on 86 MFI's and found that 83% of the total respondents agreed on the fact that incentive schemes had a high effect on increasing the productivity of employees. They also said that many managers use incentive schemes to try to improve productivity. Thus, staff incentive schemes have powerful

effects on the staff productivity of the organization and thereby are able to boost staff performance.

Employee productivity (sometimes referred to as workforce productivity) is an assessment of the efficiency of a worker or group of workers. Productivity may be evaluated in terms of the output of an employee in a specific period of time. Typically, the productivity of a given worker will be assessed relative to an average for employees doing similar work. Because much of the success of any organization relies upon the productivity of its workforce, employee productivity is an important consideration for businesses (Tinofirei, 2011).

2.2.6.1 Productivity in the Context of Microfinance Industry

One of the challenges of managing a microfinance institution is trying to do more with less, to serve more people with fewer subsidies. Another is to achieve greater impact with smaller loans and for staff to manage more clients with fewer arrears. Productivity describes how a change in an organization's inputs, such as labor, affects its outputs (i.e. loans). In microfinance, productivity discussions tend to focus on how staff incentives affect the number of clients per loan officer. In addition to incentives, other inputs such as the total remuneration package, staff training, and the use of technology can positively affect productivity. The challenge is to estimate how large an effect these inputs might have so an MFI can determine what investments in productivity enhancers are worthwhile (Churchill, 2001).

2.2.6.2 Approaches to Measure Productivity

There are a variety of factors, such as the quality of equipment, the management of materials flow, and general economic considerations (e.g., inflation or recession), that can affect business profits. However, business profitability depends, in large part, on the quality of employees' performance. One way to evaluate the quality of employees' work is through productivity measurements.

Productivity measurement can be a bit harder in a service industry due to the somewhat intangible nature of the product involved. Service industries can measure productivity by considering the number of tasks performed or the number of customers served in a given time

period. Other measures might be whether the service delivered measured up to company or customer standards and whether performance deadlines were met (Vroom, 1964).

2.2.6.3 Measuring Productivity

According to Churchill (2001), productivity is the amount of quality services delivered by microfinance staff to their clients. It quantifies the employees' efforts to deliver an MFI's output. By increasing productivity, an MFI can lower per unit costs, improve efficiency, and ultimately enhance self-sufficiency. Productivity can be measured using several indicators that capture the quantity and quality of service delivery by MFI staff. Since loans are the primary product and source of income for most MFIs, this analysis is limited to productivity associated with credit delivery. Microfinance institutions uses three main indicators to measure the productivity of credit delivery: staff productivity, loan officer productivity, and the staff allocation ratio. Of these three, staff productivity is the primary indicator. An MFI's entire staff is a relevant unit of service production, so the best measure of productivity collectively accounts for the efforts of the front and back offices. The staff productivity indicator also allows comparison between diverse MFIs that allocate tasks differently among staff. Some MFIs, for example, require loan officers to perform multiple tasks such as collecting repayments, following up on delinquent loans, member training and deposit mobilization; whereas other organizations enlist administrative or specialized personnel to fulfill some of the credit delivery functions.

As a secondary indicator, the number of loans per loan officer reflects the productivity of field staff. Along the same lines, the staff allocation ratio (loan officers to total staff) indicates the MFI's allocation of resources between staff in the field and the head office. These latter indicators are less useful in comparing financial intermediaries with credit-only institutions. However, if loan officers are exclusively responsible for loan activities, the two indicators reflect the MFI's ability to streamline its credit operations and allocate its resources to the core income-generating activity. According to Bruett (2005), the overall productivity of Microfinance Institution's employee in terms of managing clients is calculated by dividing total number of clients to total number of employees in the Institution. On the other hand, the overall productivity of Microfinance institution's employee in terms of managing loan portfolio is

calculated by dividing total loan portfolio to total number of employees in the institution. Measuring the overall productivity of employee is vital and requires examining the ability of the MFI's personnel to manage all its clients, including borrowers, voluntary savers, and other clients. As MFIs offer more products to meet their clients' diverse financial needs, total clients per total employee are more relevant than clients per loan officer as the primary productivity ratio for personnel (Bruett, 2005).

According to Stauffenberg (2003), productivity indicators reflect the amount of output per unit of input, employee productivity is calculated by dividing total number of clients of an institution by the total number of employees. This ratio captures the productivity of the institution's staff – the higher the ratio the more productive the institution. Indirectly, the ratio says a fair amount about how well the MFI has adapted its processes and procedures to its business purpose of lending money. Moreover, Stauffenberg (2003) indicated that if Microfinance institutions are to become financially viable, they must be able to handle very large numbers of customers with a minimum of administrative effort and without allowing portfolio quality to deteriorate.

2.2.6.4 What Drives Productivity

Increased productivity may be important to reduce per unit costs and improve self-sufficiency. But what drives productivity? According to Churchill (2001), there are at least four direct drivers such as staff remuneration, staff training, staff retention and client retention that MFIs can use as levers to increase productivity. The author conducted a research on staff remuneration including basic salary, bonuses and benefits and finally found that high total remunerations such as basic salary, bonuses and benefits has positively affected staff productivity — more inputs (total remunerations) should produce greater outputs (loans).

2.2.6.5 The Nexus between Staff and Productivity

Generally, incentives are regarded as variable payments made to employees or a group of employees on the basis of the amount of output or results achieved. Alternatively, it could be payments made with the aim of pushing employees' performance towards higher targets (Banjoko, 2006). Incentives could also be defined as compensation other than basic wages or

salaries that fluctuates according to employees' attainment of some standard, such as pre-established formula, individual or group goals, or organizational earnings (Martocchio, 2006). Effective incentive pay systems are based on three assumptions: individual employees and work teams differ in how much they contribute to the organization, not only in what they do but also in how well they do it; the organization's overall performance depends to a large degree on the productivity of individuals and groups within the organization; to attract, retain, and motivate highly productive workers and to be fair to all employees, an organization needs to reward employees on the basis of their relative productivity (Martocchio, 2006).

Concerns about the accuracy of management perception of a direct link between pay and individual productivity will motivate employees to higher levels of performance. According to Thorpe and Homan (2000), such a view flies in the face of research which emphasizes the importance of a whole complex of factors when understanding motivation. Furthermore, even if this perception of a direct link between pay and productivity were valid, it is doubtful that it would remain unaffected by the influence of workplace pressures, both social, economic and political (Thorpe and Homan, 2000). The literature on compensation also has related the use of incentives to attracting and retaining risk- taking employees, or employees who possess a high degree of openness to new ideas and creativity in solving daily problems (Mohrman, 1993).

2.2.7 Conceptual Framework for the Study

The aim of this section is to summarize the idea collected from past literatures and to bring out some contributions for the area of the study. The general idea from past literatures is that there exist relationship between employee's perception of performance based staff incentive schemes and employee productivity. The researcher has intended to evaluate the interrelationship between employee's perception of performance based bonus and merit pay (independent variables) and employee productivity (dependent variable) and aimed to test the framed hypothesis. The conceptual framework, i.e. the relationship of the variables for the study is referred to the following figure:

Figure 1: Conceptual Frame Work
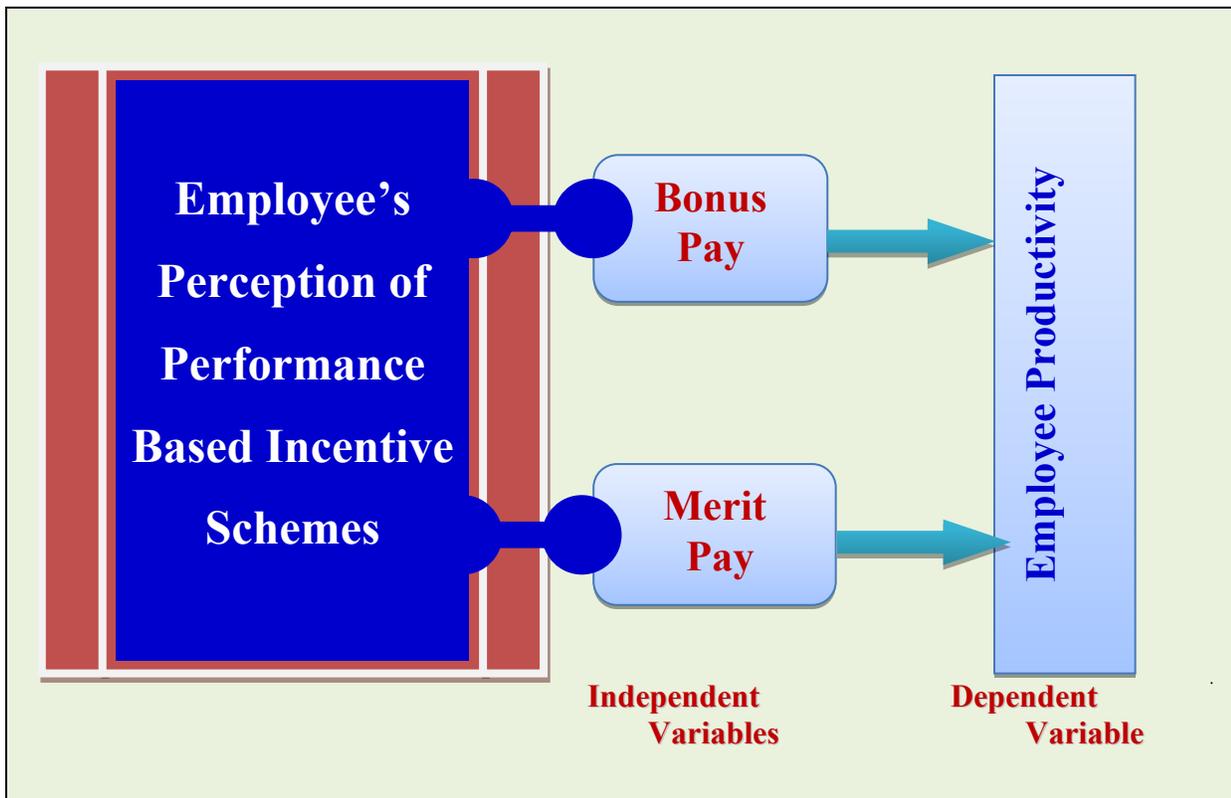
2.3 Related Theories

Theories contiguous to incentive schemes and employee productivity may possibly cover expectancy and equity theory for this particular study. As each theory more or less considers the relationship between behavior and its consequences and focuses on changing or modifying the employees' on the job behavior which can influence productivity through appropriate use of incentive schemes (rewards), emphasizing on the two prominent theories is inevitable.

The first theory is Expectancy theory. Expectancy theory asserts that individuals are motivated by internal and external conditions. Motivated performance requires a conscious decision, and people are motivated to do what they believe will result in the reward of highest value or probability. Expectancy theory assumes that persons work to optimize their expectations of attaining a valued outcome and those predictions can be made regarding their behavior if the factors that influence behavior can be quantified (Vroom, 1964).

According to the expectancy model, the decisions people make are governed by three quantifiable factors. The first factor, valence, is the perception of a positive or negative outcome. A positive outcome is achieved when the individual feels the reward is worth the perceived effort required. The second factor is governed by the likelihood of achieving the outcome after performing a particular behavior. Called instrumentality or performance to outcome, this important factor determines how closely employees see their behavior as connected to the final desired outcome. The third factor is expectancy, or effort to performance, which is the individual's perception of whether or not the behavior required is achievable.

The degree to which people are motivated will depend not only upon the perceived value of the outcome of their actions – the goal or reward – but also upon their perceptions of the likelihood of obtaining a worthwhile reward, i.e. their expectations. They will be highly motivated if they can control the means of attaining their goals. This indicates that contingent pay schemes – that is, those where pay is related to performance, competence, contribution or skill – are effective as motivators only if people know what they are going to get in return for certain efforts or achievements – there is _a line of sight' between effort and reward; they feel that what they may get is worth having and they expect to get it.

As a result, both valence and expectancy have a chance to influence employee productivity. The expectancy theory therefore forms the basis upon which incentive systems justify what MFI sector professionals devote to their organizations. Based on this understanding, the employee may ask them self-questions like _Will it make a difference by working harder?' or _What is in it for me or for us?'

The second applicable theory is the equity theory that will be used as a base in the design of this study. This theory focuses on whether an individual feels his or her treatment is fair in relation to the treatment of others. As it relates to compensation, equity theory purports that dissatisfaction results when individuals perceive they are unfairly remunerated when compared to other individuals (Frohreich, 1988). This perception is a result of an internal and subjective calculation performed by individuals as they compare their perceived work input and resultant output to the perceived work input and output of others. Inputs include such factors as hours worked expertise, skill level, seniority, difficulty, level of responsibility, and education. Outputs

include compensation, promotion opportunities, responsibility, job security, recognition, work schedule, and work flexibility. When an individual perceives that their input exceeds the input of other individuals in relation to the resultant output, the conclusion that one has been treated unfairly may occur. The perceived inequitable treatment can impact employees' loyalty, organizational citizenship, and motivation (Adams, 1965).

Equity theory is helpful in understanding dissatisfaction. It focuses on people's feelings of how fairly they have been treated in comparison with the treatment received by others. People place a weighting on inputs and outcomes according to how they perceive their relative importance. When the ratio of outcomes to inputs equals the perceived ratio of other people's outcomes to inputs there is equity. Equity is not in itself a motivator. However, where input/output ratios are out of balance, i.e. perceived employee input is high but perceived reward is low, attitudes and behavior may be negatively affected.

Chapter Three

3. Research Design and Methodology

This chapter presents the methodology used to undertake the study. It gives a description of the respondents and the data collection instruments that were used to collect data from the field and has eventually aimed to answer the marked research questions. The discussion includes the research design, population of the study, sample size and sampling techniques, source and method of data collection, variables of the study, instrumentation, measurement of variables, reliability and validity test, data analysis and management and ethical considerations.

3.1 Research Design

The study is a survey in which data were collected from the entire targeted population. According to Singh (2006), research design is essentially a statement of the object of the inquiry and the strategies for collecting the evidence, analyzing the evidences and reporting the findings. With the view to address its objectives, the study will employ quantitative methods. According to Christensen (1985), quantitative survey is the most appropriate one to use if the purpose of an investigation is to describe the degree of relationship which exists between the variables. Consequently, quantitative research designs that will be used to analyze the numerical data were applied in rigorous, well planned and systematic processes. A quantitative study usually ends with confirmation or disconfirmation of the hypotheses that were tested (Leedy, 2005). The choice of this approach is determined by the fact that this study has attempted to answer questions about the relationship between employee's perception of incentive schemes and employee productivity with the purpose of explaining phenomena which may possibly describe its influence on employee productivity.

A research that focuses primarily on the construction of quantitative data follows a quantitative method. The researcher were not going to develop theories nevertheless to test research hypothesis that demand the researcher to use numerical data which is one of the characteristics of a quantitative method. Research strategy can be chosen with the use of a single data collection technique and corresponding analysis procedure. This is known as a mono method (Saunders et al., 2009). Hence, the researcher used a deductive reasoning research approach.

The researcher was planning to collect quantitative data and has aimed to employ a quantitative data analysis method. Similarly, the researcher has used quantitative data collection technique with the use of a 5 point Likert scale items which contains 12 question items used to assess the influences of employee's perception of incentive scheme on employee productivity, 10 question items used to assess the employee's perception of bonus pay incentive schemes and 10 question items used to assess employee's perception of merit pay incentive schemes. Qualitative data was also used through 7 unstructured question items. In order to gather data on demography and social information, 6 other question items related to the pertinent demographic variables were also incorporated.

Statistical methods of data analysis were employed and data collected from the field were entered into a computer and analyzed with the use of statistical packages for social scientists (SPSS) Version: 20, which has helped to summarize the coded data and therefore supported quick data analysis. Data collected from respondents were carefully analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as mean scores; standard deviation and graphical method. Reliability analysis was used to test the internal consistency of the instrument, correlation analysis was used to assess the relationship between variables of the study and multiple regression analysis was used to assess the extent of influences of independent variables on dependent variable.

3.2 Population of the Study

The study was conducted on Africa Village Financial Services Share Company which is one of the licensed Microfinance institutions operating in the country. As per the data obtained from human resource department of the company, a total of 98 employees were currently working for the company under study. Therefore, the target population of the study has comprised of all the existing employees. Since incentive schemes can affect the behaviors of all employees regardless of the degree of variation, the researcher had targeted all categories of the employees working the under different units of the company.

3.3 Sampling Method and Sample Size

The sample should be so carefully chosen that, through it, the researcher is able to see all the characteristics of the total population in the same relationship that they would be seen where the researcher, in fact, to examine the total population (Leedy, 2005). Unless the sampling procedure is carefully planned, the conclusions that the researcher draws from the data are likely to be distorted or biased. For small populations (with fewer than 100 people or other units), there is little point in sampling; survey the entire population (Leedy, 2005). According to Field (2005), whenever it is possible to access the entire population, it is possible to collect data from the entire population and use the behavior within the sample to infer things about the behavior of the population. Subsequently, the researcher has conducted the research on the entire population of the company and then there were no sampling bias and there exist fair representation of the population. Consequently, there was no need to use any sampling methods.

3.4 Source of Data

To address the research objectives, the frequently used one, that is, primary source of data collection technique were used. Hence, primary data was collected from all target employees of Africa Village Financial Services who were assumed to give firsthand information on the subject matter. To organize the primary data, the researcher has used a five point Likert scale structured questionnaire with a total of 32 question items. Moreover, 7 unstructured question items were used to assess the level of employee's perceptions to supplement responses obtained through the close ended questionnaires.

3.5 Method of Data Collections

In order to deal with the research objectives, the most important data collection method that was employed in the study is the primary source of data collection method. Basically, the research questionnaires were directly distributed to the target respondents and the data was collected through the self-administered survey questionnaire from all employees of the company. Before beginning actual data collection, the researcher has briefed the management team and other concerned staffs with regard to the purpose of the research. The researcher has also assured the

respondents that the information collected will be kept confidential and used for academic purpose only.

3.6 Variables of the Study

3.6.1 Dependent Variable

In this research study, the dependent variable is the employee productivity.

3.6.2 Independent Variables

The researcher has emphasized on two independent variables. These are employee's perception of performance based bonus pay incentive scheme and employee's perception of performance based merit pay incentive schemes.

3.7 The Research Instrument

The research instrument that was used to collect primary data is a five point Likert scale structured questions that can be used to access the essential data from respondents. To assure the reliability and validity of the instruments used, the researcher adopted standardized instrument from two previous studies such as Abraham et al., (2014) and Leblebici, (2012) which all of these studies had testified an acceptable reliability and validity of the instrument. For the purpose of practical applicability of the instrument in the study area, the researcher made some few wording of modifications and adaptability and contextualization of the adapted terms. Overall, the designed instrumental questions include three main parts. Part one is aimed to collect data on demographic and social variables and part two is aimed to collect data on both independent and dependent variables. In the first part of the questionnaire, 6 items with different labels are included and they are dealing with the different demographic and social characteristics of the respondents such as gender, age, marital status, level of education, employment position and work experience in the company under study. The second part of the questionnaire consists of question statements that has aimed to measure the variables of the study using a five-point Likert Scale being (5 = Strongly Agree, 4 = Agree, 3= Not Sure, 2 = Disagree and 1 = Strongly Disagree). Thus, the respondents were requested to select their own

choice of the five point Likert scale alternatives in order to specify their level of agreement or disagreement on each question items. Specifically, the second part of the questionnaire includes 32 closed- ended items aimed to measure the research variables. The third part includes 7 unstructured or open ended research questions. Thus, the research instrument includes a total of 39 question items in which each respondent expressed their own views apart from the 6 questions designed to assess demographic and social data of respondents. All question items were attached as appendix 1.

3.8 Reliability and Validity Test

3.8.1 Reliability Test

Reliability test measures the degree to which an instrument consistently measures what it is intended to measure and offers consistent measurement across time and across the various in the instrument (Cavana et al., 2001). Reliability means that results obtained will be the same if repeated with the same people the following day, the answers to questions are of the same quality no matter where they are asked, and that several questions measure a single concept.

Inter item consistency is a test of consistency of respondent's answers to all the items in a measure. According to Cavana et al., (2001) the most popular test of inter item consistency reliability is the Chronbach's coefficient alpha, which is used for multipoint scaled items. Moreover, the author stated that even though, there is no predetermined standard; an instrument that provides a reliability coefficient of .70 is usually considered as a reliable instrument. Hence, in this study the internal consistency of the question items of the instrument were tested using Chronbach's alpha and thus a minimum Chronbach's α= .70 was considered as sound and reliable.

3.8.2 Validity Test

Validity is the extent to which data accurately reflects what they are meant to reflect. It means that the instrument measures what it is supposed to measure, that all questions are accurately measuring the concepts they are intending to measure, and that every question relates directly and statistically to employee's perception of incentive schemes and its influence on

productivity. In other words, the right questions are being asked to obtain meaningful usable responses on concept under study.

There are some factors which can affect the validity of data, for example, if a respondent is in a haste to complete the questionnaire, the validity of this response could be affected; also misinterpretation of questions by the respondents will also affect validity. According to Creswell (2003), there are three forms of validity i.e. Content, Concurrent and Construct validities. The author also stated that among the three forms of validities, content and construct validity is the most sophisticated and rigorous types of validity and the most recommended types of validity for social studies. Concerning to this particular research, the measurement instruments are adapted from previous research studies in which case the validity and reliability of the instrument were already assured. Even though the adapted instruments are valid by themselves, to further ensure their validity, the researcher gave reasonable time for respondents and translates all the questions from English language to Amharic language so that a clear understanding of the question shall be guaranteed among respondents. Moreover, the content validity which is primarily the issue of the sampling adequacy was not a concern as the study has included the entire population of the company.

3.9 Method of Data Analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information gathered. After collecting all the necessary data, these data were coded and edited, analyzed and rephrased to eliminate errors and ensure consistency. It involves categorizing, classifying and summarizing of the responses to each question in coding frames, basing on the various responses. This organization of the responses helped to remove unwanted responses which would be considered insignificant. Data collected from the field were entered into a computer and analyzed with the use of statistical packages for social scientists (SPSS) Version: 20, which assisted to summarize the coded data and expedited data analysis.

In line with the hypothesis of the study, data collected from the questionnaire were carefully analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as mean, standard deviation, percentages, frequency distributions and graphical

analysis. In general, three type statistical analyses were applied i.e. descriptive statistics, correlation and multiple regression analysis. Descriptive analysis were used to summarize the demographic characteristics of the respondents and to know the level of employees perception of incentive schemes based on the response of respondents and hence analyzed by comparing the ―mean‖ and ―standard deviation‖ score of each variable. According to Zaidaton & Bagheri (2009), the mean score below 3.39 is considered as low; the mean score from 3.40 up to 3.79 is considered as moderate and mean score above 3.8 is considered as high as illustrated below:

Table 1: Comparison Bases of Mean Score of Five Point Likert Scale Instruments

S/No	Mean Score	Description
1	< 3.39	Low
2	3.40 -3.79	Moderate
3	> 3.80	High

Source: Zaidatol & Bagheri (2009)

Correlation analysis was used to show the strength of the association between the variables involved. Inter-correlations coefficients (r) were calculated by using the Pearson‘s Product Moment. According to Cohen (1998 as cited by Warokka and Gallato, 2012), the correlation coefficient (r) ranging from 0.10 to 0.29 may be regarded as indicating a low degree of correlation, (r) ranging from 0.30 to 0.49 may be regarded as a moderate degree of correlation, and (r) ranging from 0.50 to 1.00 may be regarded as a high degree of correlation. Field (2006) also stated that the output of correlation matrix can be the correlation coefficient that lies between -1 and +1. Within this framework, a correlation coefficient of +1 indicates a perfect positive relationship, and a correlation coefficient of -1 indicates a perfect negative relationship; whereas a coefficient of 0 indicates no liner relationship. Basically what a correlation coefficient does is look at whether or not a high score on one variable is associated with a high score on the other. The SPSS output of correlations are presented in a symmetric table, so all the variables that we are correlating with one another appear both in the rows and the columns, and we can look across to see all the correlations we are interested in. Three important pieces of information are given: the Pearson (r) correlation coefficient, the significance level (‗Sig.‘) and the number of cases for which we have data on both variables.

If we look across the row, we can see that the first column contains the correlation of the variable with itself, which is of course 1 (a perfect positive correlation). This is useless information. In the next column we can see the correlation with the correlated variable. The actual Pearson correlation figure need to be considered and this figure is the magnitude of correlation or the correlation coefficient which indicates the strength of the relationship between the variables. The next piece of information given is the significance level or p-value. Low values indicate a low probability of us finding a relationship between these variables in our sample if there was none in the population. Finally, we have the N, the number of cases for which we have information on both variables (Muijs, 2004).

According to Muijs (2004), Pearson correlation coefficients vary between −1 and +1, with +1 indicating a perfect positive relationship (a high score on variable X = a high score on variable Y), −1 a perfect negative relationship (a high score on X = a low score on Y), and 0 = no relationship. Furthermore, Pearson correlation gives us information about a number of aspects of the relationship. For instance, the direction of the relationship i.e. a positive sign indicates a positive direction (high scores on X means high scores on Y), a negative sign indicate a negative direction (high score on X means low scores on Y) and the strength of the relationship, that is, the closer to 1 (+ or −) the stronger the relationship. Another piece of information we need is whether or not the relationship is statistically significant (unlikely to exist in the sample if it doesn't exist in the population). SPSS gives us the p- value along with the correlation coefficient. The smaller the p-value, the lower the probability that we would have found a relationship in our sample if there was none in the population. Therefore, we also have information on the statistical significance of the relationship. As for the strength of the relationship, the closer to + or −1, the stronger, the closer to 0 the weaker. Whereas, for the purpose of this research and for correlations purposes, the rules of thumb on effect size indicated by Muijs (2004) as cut-off points for the interpretation of the strength of correlation coefficient is shown in the table below:

Table 2: Interpretation of Strength of Correlation Coefficients

S/No	Value of Coefficient	Relationship Between Variables
1	(+ or -) 0.80 to (+ or -) 1.00	Very strong Correlation
2	(+ or -) 0.50 to (+ or -) 0.79	Strong Correlation
3	(+ or -) 0.30 to (+ or -) 0.49	Moderate Correlation
4	0.10- 0.29	Modest Correlation
5	Less than 0.1	Weak Correlation

Source: Muijs (2004)

Multiple regression analysis was the third statistical analysis used in this study. Regression is the determination of a statistical relationship between two or more variables. In multiple regression analysis there must be at least two explanatory variables defined as independent variables which is the cause of the behavior of another one defined as dependent variable. Since the correlation result provides only the direction and significance of relationship between variables, multiple regression analysis was used to observe the influence of employees' perception of performance based bonus and merit pay incentive schemes on employee productivity. Hypotheses testing were conducted at 95% confidence intervals and eventually findings, conclusions and recommendations were drawn from the entire population. So, the following regression model was used to determine the variation or quantitative associations between the variables as follows:

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + e$$

Where:

Y = Employee Productivity,

α = Constant,

β_1 = is the coefficient of performance based bonus pay incentive (first independent variable),

β_2 = is the coefficient of performance based merit pay incentive (second independent variable),

Hence, β_1 = is the change in y for one unit change in X_1 and β_2 = is the change in y for one unit change in X_2.

X_1 = Performance based bonus pay incentive scheme

X_2 = Performance based merit pay incentive scheme

e = is the error term

Chapter Four

4. Data Analysis, Discussion and Summary of Results

In this chapter, data analysis, discussion and summary of the results of the research are presented. The purpose of the study is to critically assess the relationship between employee's perception of performance based incentive schemes and its influence on employee productivity. To facilitate and ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the inferential analysis. The quantitative and qualitative data that were collected were presented and findings of the study were analyzed based on the specific objectives and hypotheses of the study integrated with previous related studies.

4.1 Response Rate

Indeed, the survey data was collected from the entire population of Africa Village Financial Services Share Company which constitutes 98 total employees of the company under study. Ninety eight (98) questionnaires were distributed to the targeted entire population. Out of the ninety eight (98) questionnaires distributed to the respondents, ninety (90) responses were returned. Thus, only the ninety (90) completed and returned responses were employed in the analysis, which represents 92% response rate (90/98=0.92). Accordingly, data were collected from ninety (90) respondents and the analysis of the study is based on the ninety (90) questionnaires returned from the targeted population of the study.

4.2 Reliability Test

Chronbach's alpha is a coefficient of reliability. It is commonly used as a measure of the internal consistency or reliability of a psychometric test score for a sample of examinees. It was first named by Lee Chronbach in 1951, as he had intended to continue with further coefficients. The measures can be viewed as an extension of the Kuder-Richardson Formula 20 (KR-20), which is an equivalent measure for dichotomous items. Hence, according to Lombard (2010), Coefficients of .90 or greater are nearly always acceptable, .80 or greater is acceptable in most situations, and .70 may be appropriate in some exploratory studies for some indices.

As indicated in table 3 the reliability of the whole items is .977, as Lombard stated coefficients of .90 or greater are always acceptable. Thus, the result of the reliability test showed that the whole items were reliable and acceptable.

Table 3: Reliability Statistics

Reliability Statistics	
Chronbach's Alpha	Number of Items
.977	32

4.3 Demographic Characteristics of Respondents

The first part of the questionnaire was aimed to collect general data on the social and demographics of the respondents. This included aspects of gender, age, marital status, staff category, number of years served with current organization and the level of the highest educational qualification held. This data was presented, beginning with ―gender‖ in the following manner.

4.3.1 Percentage of Respondents by Gender

Of the total population surveyed, 53 workers or 58.89% are males while 37 workers i.e. 41.11% are females. This finding indicates that there exists male domination in terms of gender in the case of Africa Village Financial Services Share Company. However, it is possible to infer that there is parity between male and female employees. According to some studies, there is no significant difference in employee productivity between men and women. On the other hand, it is often assumed that women have a higher rate of absence than men do due to family responsibilities at home. Pertaining to this study, gender wise distribution of the case company is moderately interesting yet it is demanding to raise female employees to the reasonable percentages since female employees are more loyal and committed than males particularly in such labor intensive companies. Gender assessment result can be portrayed using pie chart as in the figure 2 shown below:

Figure 2: Sex of Respondents
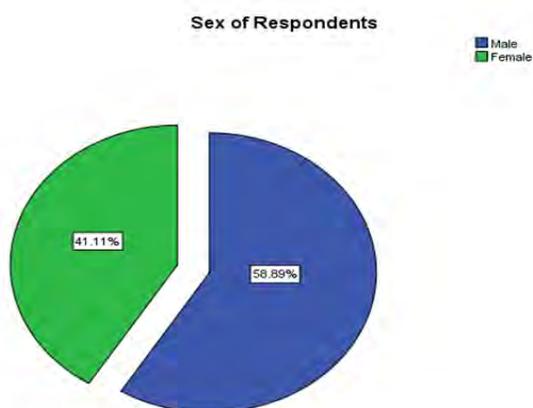
4.3.2 Age Range of Respondents

Out of the 90 participants, 20 respondents, i.e. 22.20% are aged between 20 and 30 years and 35 respondents or 38.90 % are aged between 31 and 40 years. Conversely, 6 respondents i.e. 6.70% of respondents are under 25 years while 3 respondents or 3.30% are over 60 years of age.

Table 4: Age Range of Respondents

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Below 25	6	6.70	6.70	6.70
25 – 30	20	22.20	22.20	28.90
31 – 40	35	38.90	38.90	67.80
41 – 50	16	17.80	17.80	85.60
51 – 60	10	11.10	11.10	96.70
Over 60	3	3.30	3.30	100.00
Total	90	100.00	100.00	

The age analysis finding indicated that almost 68.7% of employees were aged less than 40 years and the remaining 31.3% aged greater than 40 years. This implies that more than half of the existing employees were young people and hence may have high chance to shift to other

companies if not properly handled and their minimum satisfaction will not meet. On the other hand, if well rewarded and motivated, this existing potential human resources have a high possibility to contribute to increased productivity and creativity.

4.3.3 Marital Status of Respondents

Table 5 represents the marital status of the target respondents of Africa Village Financial Services from which the research was conducted.

Table 5: Marital Status of Respondents

Marital Status of Respondents				
Marital Status	Frequency	Percent	Valid Percent	Cumulative Percent
Single	58	64.40	64.40	64.40
Married	30	33.30	33.30	97.80
Divorced	2	2.20	2.20	100.00
Total	90	100.00	100.00	

As can be seen from the table, the majority of the respondents, i.e. 58 respondents or 64.40% were single whereas 30 respondents or 33.30% of respondents were married and the remaining 2 respondents or 2.2% were divorced. Generally, it is believed that married employees have fewer absences, undergo fewer turnovers and are more satisfied with their jobs than are their unmarried coworkers. Linking with this fact unmarried respondent rate of the target respondents of the case company accounts over 64%. This is meant to indicate that over half of the company workers will experience high absence rate and low retention rate. For that reason, employees' satisfaction levels need to be enhanced on top of providing the right motivational tools to the target employees.

4.3.4 Staff Category of Respondents

The staff categories of respondents were reviewed via grouping in to three main staff categories such as management, operation and support. The majority of respondents are categorized under operation staff which accounted for 60% of the entire respondents while 36.70% of respondents are support staffs and the remaining 3.30% are management staff.

Staff Category of Respondents				
Staff Category	**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Management	3	3.30	64.40	3.30
Operation	54	60.00	33.30	63.30
Support	33	36.70	2.20	100.00
Total	90	100.00	100.00	

In MFI context, operation staffs are those employees who are directly responsible for the execution of saving and credit operations and management as per the established policy and procedures of the company. It is obvious that MFI's entire staff is a relevant unit of production; nevertheless, those front office staffs particularly operation staffs are very decisive for the enhancement of the efficiency of MFI. Most MFI experts believe that the number of operation staffs should account over 65% of the total employees of the institution. With regard to the analysis of these findings, 60% of the entire employee is accounted by the operations staff which is in fact promising and yet expected to increase the number of operation staffs so that it will further help to achieve MFI efficiency.

4.3.5 Respondents Years of Services

The targeted respondents were asked to indicate the number of years they have served for their current company. Vigilant analysis of the questionnaires indicated that 33 respondents or 36.70% of the respondents have worked for 2 to 4 years with their current employer and also other 33 respondents have worked for 5 to 7 years. Moreover, 15 respondents, i.e. 16.70% of the respondents have worked for 8 to 10 years, 6 respondents or 6.7% have worked for 11 to 15 years and 3 respondents or 3.30% of the respondents have worked for over 15 years with their current employer. The chart below portrays the numbers of years the various respondents have served for their current employer.

Figure 3: Number of Service Years of Respondents
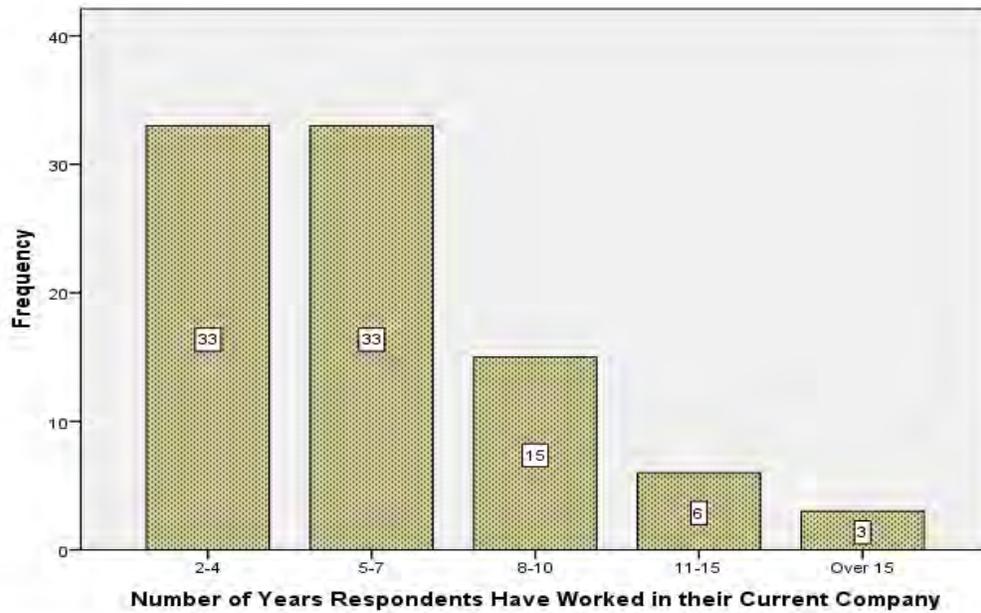
The most recent evidence demonstrates a positive relationship between seniority and productivity. The finding analysis of the respondents' numbers of years of experience with their current employer indicated that more than 63% of the target populations have served for over five years for their current employer. Thus it is very easy to realize that employees who have adequate and commensurate experiences from their current employers can apply their precious experiences and accomplish their assigned tasks successfully and therefore improve their productivity.

4.3.6 Respondents Highest Level of Qualification

The respondents' qualification level was cautiously categorized and their qualification levels were divided into five arrangements. The majority of respondents i.e. 42.20% hold Bachelor degree and 38.9% of respondent are diploma graduates. Of the total respondents, 11.10% of respondents are below 10+2 level, 5.60% of respondents have 10+2 level certificate and only 2.2% of the entire respondents hold a Master Degree of academic qualification. The next table 7 details the respondents' highest level of educational qualification as follows:

Table 7: Respondents Highest Level of Educational Qualification

Education Level	Frequency	Percent	Valid Percent	Cumulative Percent
Below 10+2	10	11.10	11.10	11.10
1o+2	5	5.60	5.60	16.70
Diploma	35	38.90	38.90	55.60
Degree	38	42.20	42.20	97.80
MA	2	2.20	2.20	100.00
Total	90	100	100	

Employee's ability refers to their capacity to perform the various tasks in a job and their overall abilities are mainly made up of two sets of factors, such as educational qualification and work experiences. The level of educational qualification finding analysis indicated that almost 81% of the respondents hold either diploma or degree level of academic qualifications. Generally speaking the higher the level of academic qualifications and numbers of experiences employees attained the better they become successful in their assigned jobs. Consequently, higher employee performance is likely to be achieved when the required qualification and experience is sufficiently and regularly maintained. In general, both analysis i.e. numbers of years of experience and academic qualification of the respondents revealed the existence of potential staffs and can be taken as the best opportunity for the case company if exploited efficiently and wisely.

4.4 Discussion of Findings

4.4.1 Descriptive Data Analysis

In this part, the descriptive analysis method was performed to assess the perceptions of the respondents with regard to the performance based bonus and merit pay incentive scheme practices. In doing so, the items for measurement of employee perception of performance based incentive schemes are summarized to answer the first hypothesis of the study.

� Assessing the level of employee's perception of bonus and merit pay incentive schemes.

In case of this analysis, the response for each specific statement as regards to bonus and merit pay incentives are compared using the mean and standard deviation score. The degree of agreement or disagreement of the respondent for each statement are also analyzed by summarizing the five point Likert scale response in to three by consolidating the strongly agree and agree response into one positive response (Agree) and the strongly disagree and disagree response in to one negative response (Disagree) and the not so sure response is taken as it is.

Hypothesis 1: Employees have no positive reaction about the currently existing bonus and merit pay incentive scheme practices of the company.

To answer this hypothesis and to evaluate the employee's perception of the existing incentive scheme practice, the 20 question items of the instruments were used, i.e. 10 question items were used to assess the employee's perception of bonus pay incentive schemes and 10 question items were also used to assess merit pay incentive schemes and these were analyzed with the help of descriptive statistics of SPSS version 20.0. In order to clearly scrutinize the perception of employees on both bonus and merit pay incentive schemes, it is desirable to analyze the responses of all respondents on the incentive schemes in terms of discrete item mean score and overall item mean score. Thus, the views of the respondents on the twenty items of employee's perception on the existing bonus and merit pay incentive scheme practices were presented in Table 8 below.

Table 8: Level of Employee Perception

No	Items used for the assessments of employee's perception of bonus and pay incentive schemes.	Mean	Standard Deviation
1	The currently existing performance based incentive scheme is enabling me to improve my efficiency and productivity.	4.11	.999
2	A well-designed bonus pay incentive program can boost my performance.	4.14	.881
3	I do feel that the existing bonus pay incentive scheme is inspiring me to a higher productivity.	4.04	1.131
4	Performance based bonus pay has a positive input on my productivity.	4.16	1.005
5	I feel that the established bonus pay incentive standards are really	4.00	1.039

	motivating and attainable.		
6	I am very satisfied with the way bonus pay incentive scheme is put into practice.	4.12	1.004
7	I feel bonus pay incentive schemes as a sign of empowerment where employees who produce much productivity are more rewarded.	4.20	.902
8	Rewarding good work and excellence by means of performance based bonus pay can contribute to more excellence and healthy competition.	4.07	1.068
9	I feel comfortable with the calculation of bonus pay incentive schemes.	4.11	1.033
10	In general, I am almost optimistic toward the performance based bonus incentive scheme being implemented.	4.10	1.033
11	My company provides merit pay incentives for me according to my post and consistent with my level of productivity.	3.84	1.189
12	I strongly feel that performance based merit pay is the right form of reward as it ensures my permanent pay increase as a function of my superior performance.	3.81	1.235
13	Merit pay incentive scheme is strongly associated with my performance rating.	3.73	1.305
14	The management of the company is fair in the implementation of performance based merit pay incentive scheme.	4.06	1.027
15	By means of performance based merit pay scheme, my individual efforts and achievements are well recognized.	3.83	1.192
16	A well designed merit pay incentive scheme has a high tendency to enhance my productivity.	3.96	1.151
17	The detailed procedures of the performance based merit pay are clearly communicated to all employees of the company.	3.78	1.288
18	I am confident that performance based merit pay incentive scheme is very successful in improving employee productivity.	3.96	1.101
19	The existing merit pay incentive scheme is encouraging me towards exhibiting the desired behavior to enhance productivity.	4.02	1.038
20	Performance based merit pay incentive scheme has greater effect on my productivity than bonus pay incentive scheme.	3.74	1.223
	Total	**3.99**	**1.09**

Source: Own survey data, 2016

Hence, the views of the respondents on the twenty items of perception on both bonus and merit pay incentive scheme practices were presented and inferred with due care. According to Zaidatol and Bagheri (2009) mean score specification, the respondents view on positive feeling of bonus pay incentive scheme practice (perception) for one item is relatively higher, that is, ┼

feel bonus pay incentive schemes as a sign of empowerment where employees who produce much productivity are more rewarded" with a mean value of 4.2. On the other hand, the respondents' mean score on the item —Merit pay incentive scheme is strongly associated with my performance rating" with a mean score of 3.73 and is the minimum mean score of employee's perception of performance based bonus and merit pay incentive schemes. In general, the respondents' positive reflection on the existing performance based bonus and merit pay incentive scheme ranges from high to moderate with a high mean score of 4.20 and moderate mean score of 3.73. The overall response for the twenty items indicates the mean = 3.99 and SD = 1.09. The higher the mean score, the more that respondent agreed with the respective question items and vice versa. The figures for standard deviation (SD) also indicate the degree to which responses varied from each other; the higher the figure for SD, the more variation in the responses. Therefore; this result based on Zaidatol and Bagheri (2009) mean score compression basis, the mean score = 3.99 indicates that there is high level of positive feeling towards the existing performance based bonus and merit pay incentive scheme practices, which implies that, the respondents have —strong positive reaction or feeling" with the bonus and merit pay incentive scheme practices of Africa Village Financial Services Share Company. Thus; from this finding it can be inferred that, the respondents have positive feelings towards the existing practices of performance based bonus and merit pay incentive schemes in terms of fairness and the simplicity of bonus calculation, its ability to motivate and trigger employees to boost their productivity and the effectiveness of the existing incentive scheme implementation practices. Therefore, such remarked areas of contentment are the good indicators and the root causes for employee's positive perception and favorable reaction concerning the existing performance based incentive practices of AVFS. In turn, it might have its own positive influence on the employee productivity in particular and company's performance in general.

Holtmann (2005) stated that there would almost certainly be a positive effect on motivation, particularly if there is an incentive scheme in place for employees. Similarly, this research finding showed that employees have significant and positive perception of the existing incentive scheme and also sense that it has positive effect on their motivation. Therefore, the first hypothesis of the study is rejected; which means that —employees have positive reaction about the currently existing bonus and merit pay incentive scheme practices of the company".

4.4.2 Inferential Analysis

4.4.2.1 Correlation Analysis

Correlation refers to synonym for association or the relationship between variables and it measures the degree to which two sets of data are related. Higher correlation value indicates stronger relationship between both sets of data. When the correlation is 1 or -1, a perfectly linear positive or negative relationship exists; when the correlation is 0, there is no relationship between the two sets of data (Vignaswaran, 2005).

➲ Assessing the relationship between employee's perception of bonus and merit pay incentive schemes and employee productivity.

The two subsequent hypotheses i.e. hypothesis 2 and hypothesis 3 were vigilantly tested by performing the next correlation analysis.

Hypothesis 2: There is no significant and positive relationship between employee's perception of bonus pay incentive schemes and employee productivity.

Hypothesis 3: There is no significant and positive relationship between employee's perception of merit pay incentive schemes and employee productivity.

As shown by the conceptual framework of this study, to test the relationship between employee's perception of bonus and merit pay incentive scheme and employee productivity, the following correlation analysis is performed.

➲ The relationships of employee's perception of bonus pay incentive schemes and employee productivity.

Hypothesis 2: There is no significant and positive relationship between employee's perception of bonus pay incentive schemes and employee productivity.

To test this research hypothesis, the result of the correlation is analyzed to show the strength of the association between the variables involved and to indicate the direction and the significance

level of the relationship between these two variables. Table 9 presents the inter-correlations among the variables being explored. From this analysis, it is noted that employee's perception of performance based bonus pay incentive is positively and significantly correlated (r = .583, p < 0.01) with employees productivity. The positive value of the correlation coefficient indicates the fact that the higher the level of employee's perception of performance based incentive scheme, the higher the level of employee productivity and vice versa. The significance level of .000 also shows the relationship between employee's perception of bonus pay incentive scheme and employee productivity is significant at p< 0.01, 2-tailed. For this correlation purposes, the rule of thumb or descriptors developed by Muijs (2004) were used to interpret the magnitude of the findings presented as correlation coefficients. Therefore; the correlation coefficient r = .583 is within the strong correlation or association range of Muijs. From this analysis, it can be noted that employee's perception of performance based bonus pay incentive scheme was positively correlated and had strong correlation with employee productivity (r=.583, p < 0.01, 2-tailed).

Table 9: Correlation Matrix of Employee's Perception of Bonus & Productivity

Variables	Correlation and Significance	Employee's Perception of Bonus Pay Incentive Schemes	Employee Productivity
Employee's Perception of Bonus Pay Incentive Schemes	Pearson Correlation	1	.583[**]
	Sig. (2-tailed)		0.000
Employee Productivity	Pearson Correlation	.583**	1
	Sig. (2-tailed)	0.000	

** Correlation is significant at the 0.01 level (2-tailed).
Source: Own survey data, 2016

This study finding showed that employee's perception of bonus pay incentive schemes have positive and significant correlation with employee productivity. Consequently, the second hypothesis of the research study is rejected.

⮕ The relationships of employee's perception of merit pay incentive schemes and employee productivity.

Hypothesis 3: There is no significant and positive relationship between employee's perception of merit pay incentive schemes and employee productivity.

As it is indicated in table 10 below, the result of Pearson's correlation coefficient r = .641 and p= 0.000. From this analysis it is noted that, employee's perception of performance based merit pay incentive scheme had significant and positive relationship with employee productivity. This positive value of the correlation coefficient showed that the higher the level of employee's perception of performance based merit pay incentive scheme, the higher the level of employee productivity and vice versa. The significance level of 0.000 shows the relationship is significant at $p < 0.01$, 2-tailed. Thus, the correlation coefficient r = .641 is within the strong correlation or association range of Muijs; from this analysis, it is noted that employee's perception of performance based merit pay incentive scheme was positively correlated and had strong association with employee productivity (r = 0.641, $p < 0.01$, 2-tailed).

Table 10: Correlation Matrix of Employee's Perception of Merit & Productivity

Variables	Correlation and Significance	Employee's Perception of Merit Pay Incentive Schemes	Employee Productivity
Employee's Perception of Merit Pay Incentive Schemes	Pearson Correlation	1	.641**
	Sig. (2-tailed)		0.000
Employee Productivity	Pearson Correlation	.641**	1
	Sig. (2-tailed)	0.000	

** Correlation is significant at the 0.01 level (2-tailed).
Source: Own survey data, 2016

This study finding also indicated that employee's perception of merit pay incentive schemes have strong and positive correlation with employee productivity. Consequently, the third hypothesis of the study is similarly rejected.

4.4.2.2 Regression Analysis

➲ Examining employee's perception of incentives and its influence on employee productivity

Conducting multiple linear regression analysis helps to realize the relationship between one ‗effect' variable, called the dependent variable, and one or more predictors, also called independent variables. By using regression analysis, it is possible to test the fourth hypothesis; that is ―employee's perception of bonus and merit pay incentive scheme has no influence on employee productivity". This is simply to examine whether the independent variables (employee's perception of performance based bonus pay and employee's perception of performance based merit pay) incentive schemes can be a predictor of the dependent variable (employee productivity).

Basically, regression analysis was carried out in order to test the extent of impact of independent variables on dependent variable. Thus, this multiple regression analysis is performed to address the fourth hypothesis of this study (to find out whether the employee's perception of performance based bonus and merit pay incentive scheme has a significant influence on employee productivity).

Hypothesis 4: Employee's perception of bonus and merit pay incentive scheme has no influence on employee productivity.

To assess the extent of the first predictor, i.e. the influence of employee's perception of performance based bonus and merit pay incentive scheme on employee productivity, multiple regression analysis was carried out. The result of the regression model shown in table 11 indicates the value of the regression coefficient: R = .735, R - square = .540 and adjusted R – square = .530 and significance level of P = 0.000 indicates that the model is significant at p < 0.001, 2 - tailed. Thus, the aggregated effect of employee's perception of performance based bonus and merit pay incentive scheme on employee productivity is explained by the value of the R square, which indicates that 54% of employee productivity in AVFS is accounted specifically by the existence of positive and favorable perception of employee's on the current bonus and merit pay incentive schemes. Therefore, 54% of the total variation of employee

productivity is explained by the two independent variables, i.e. employee's perception of bonus and merit pay incentive schemes.

Table 11: Regression Model Summary

Regression Model Summary				
Model	**R**	**R – Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	0.735[a]	0.540	0.530	0.778

a. Predictors: (Constant), EPMP, EPBP

Source: Own survey data, 2016

The beta coefficient of the model in table 12 indicates that beta value of the constant is .311 whereas; the beta value for the first predictor variable (employee's perception of performance based bonus pay incentive scheme) is .444 and the beta value for the second predictor variable (employee's perception of performance based merit pay incentive scheme) is .465. The t-value of 4.95 and the p-value of 0.000 indicate the model is significant at $p < 0.001$. Therefore, the β_1 coefficient ($\beta_1 = .444$) implies that the level of employee productivity will increase by 44.4% if their perception of bonus pay incentive scheme (level of positive feeling) is increased by one unit. Similarly, to examine the influence of the level of the second predictor, i.e. the influence of employee's perception of performance based merit pay incentive scheme on employee productivity, it is still normal to emphasize on the result of the regression coefficient table.

Table 12: Multiple Regression Coefficients

Coefficients[a]

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.311	.378		.822	.413
	EPBP	.444	.090	.391	4.950	.000
	EPMP	.465	.075	.487	6.162	.000

a. Dependent Variable: EPIP

Source: Own survey data, 2016

From this result, the extent of the effect of employee's perception of merit pay incentive scheme on employee productivity is explained by the value of β_2 which directly corresponds to

the predictor of EPMP representing employee's perception of merit pay incentive scheme. Hence, the β_2 coefficient in table 12 indicates the beta value for the employee's perception of performance based merit pay incentive scheme is .465. The t- value of 6.162 and the significance level of 0.000 shows the model is significant at $p < 0.001$ and infers that employee's perception of merit pay incentive scheme as a predictor variable had significantly explained the variance in employee productivity. Thus, the $\beta_2 = .465$, characterizes the increase of the level of employee productivity by 46.5% if employee's perception of merit pay incentive scheme is increased by one unit.

As a result, the forth hypothesis of the study is also rejected; suggesting that, employee's perception of bonus and merit pay incentive scheme has significant influence on employee productivity.

Hypothesis 5: The influence of employee's perception of merit pay incentive scheme has no larger effect on employee productivity when compared to bonus pay incentive scheme.

In order to examine and test the fifth hypothesis, i.e. evaluate whether the employee's perception of merit pay incentive scheme has larger influence on employee productivity than bonus pay incentive scheme, yet again, the result of the regression model coefficient (table 12) can be a base. As it is clearly observed from the result of the regression model coefficient, the coefficient of β_1 which corresponds to EPBP representing the employee's perception of performance based bonus pay is 0.444 envisaging that the level of employee productivity will increase by 44.4% if their perception of bonus pay incentive scheme is increased by one unit. On the other hand, the coefficient of β_2 which corresponds to EPMP representing the employee's perception of performance based merit pay incentive scheme is 0.465 predicting that the level of employee productivity will increase by 46.5% if their perception of merit pay incentive scheme is increased by one unit.

Hence, the fifth hypothesis of the study is also rejected, confirming that the influence of employee's perception of merit pay incentive scheme has larger effect on employee productivity when compared to bonus pay incentive scheme.

4.4.3 Finding and Discussion of Results from Open ended Questions

The main objective of this open ended research questionnaire is to triangulate respondents' opinion which is collected through the structured research questions and further collect data without limiting the views of the target respondents. In this case, respondents' view is not limited and they will be allowed to express their feeling freely as they wish. Therefore, the open ended questionnaire is used as a primary data collection technique like that of the closed ended one irrespective of its advantages and disadvantages. Thus, in this study, seven open ended question items were included on top of the 32 closed ended Likert question items to address the research questions and further investigate the established research hypotheses. So, the following questions were addressed to collect qualitative data from the target respondents for the purpose of this study:

1. What is your perception towards the existing performance based bonus and merit pay incentive schemes? Please clearly state your positive and negative feelings, if any.

As regards to the perception of employees about the existing performance based bonus and merit pay incentive schemes, most of the employees replied that they have very positive feelings, nonetheless very few respondents expressed their reservations. The majority of the respondents felt the fact that the existing incentive scheme could be source of motivation and foster healthy competitions among employees. The usual implementation practices, its fairness and transparency and its helpfulness in terms of meeting the company's and individual shared interest were highly emphasized by the research participants.

A small number of respondents were very hesitant and not as such confortable pertaining to the fairness and transparency of the existing incentive implementation system. They also stated that

the magnitude of the incentive amount specifically that of bonus is not so satisfactory and still lacks transparency in terms of its calculation and simplicity.

2. Do you feel that the existing performance based bonus and merit pay incentive schemes will enable you to further improve your productivity? How?

This research question was intended to search the effectiveness and significance of incentives and their link with employee productivity. Almost all respondents responded that both performance based bonus and merit pay incentive schemes could inspire and elicit them for better performance so as to meet the target objectives so that they will be rewarded for their superior performance. As per the response of most research participants, most of the respondents strongly perceived that the existence of attractive and equitable incentive benefits has high chance to provide employee satisfaction and motivation. Most of the respondents also indicated that additional benefit rewards should be on board and the currently existing incentive scheme need to be consistently reviewed so that it can achieve its objective.

3. Do you think that employee's different perception of incentive schemes has its own influence on employee productivity? How?

The main objective of this question is to collect data about the different employee perception of incentive schemes together with its effect on employee productivity. There was almost common understanding among respondents and they expressed that even if the degree of influences of employee perception on employee productivity is different, employee's perception of incentive scheme has its own effect on employee productivity. Most of the respondents described the fact that if employees experience high positive feeling on the existing incentive schemes and sense that the existence of incentives can have positively influence on performance, then employees exert more effort on their assigned duties and become more committed to their jobs. Consequently, it is well predicted that committed, satisfied and motivated employees are hard workers and very willing to enhance their performance. Some respondents also identified that if employees are not happy and have negative perception of incentives, such perceptions damages employee behavior and ultimately results in poor employee productivity.

4. Are you satisfied with the existing incentive scheme benefits? If your answer is ‗No‗, please state your main source of dissatisfaction.

The aim of this question is to be aware of the satisfaction level of employees pertaining to the existing incentive packages and identify any source of dissatisfaction if any. According to the response obtained from the research participants, it is not difficult to infer the fact that there is general satisfaction on the existing incentive packages. As per some respondents, their satisfaction is as a result of the existence of both bonus and merit pay incentive package, existence of fairness and transparency during implementation practices and the ultimate benefit of the incentive scheme. In contrast, a few numbers of respondents were very open to express their dissatisfaction and even indicated their sources of dissatisfaction. As pointed by the respective respondents, they are not in favor of the significance of the current incentives and also not satisfied with the amount and frequency of incentive payments. Few respondents also described that the effectiveness of the existing incentive implementations were very questionable and thus they were not optimistic about the existing incentives. Therefore, as to the issue of satisfaction on incentives, it has been observed that there exist large variations of responses. Nevertheless, the level of satisfaction outweighs the level of dissatisfaction as a large number of respondents‗ view is in favor of the current incentive scheme practices.

5. Do you think that the implementation of performance based incentive schemes in AVFS is fair and transparent? Would you briefly give your justification for your response?

This question was also raised to evaluate and demonstrate whether fairness and transparency exist during the process of implementing the existing incentive practices. Fortunately, more than half of the total respondents confirmed the existence of fairness and transparency. Some respondents reflected their views briefing that it is fair in terms of the fact that employees who performed better and produced better results received higher incentives; the compensation system and implementation practice is promising and the target objectives are attainable. Some respondents also added some merits of the system like its simplicity and understandability and its basic working principles such that the existing incentive scheme is based on measurable

objective variables. There are also other respondents who are completely against this view although they were very small in number. They illustrated issues such that the existing system is not fair as the amount of incentive and frequency of payment is not motivating. Moreover, there exist biasness and the incentive system itself is not transparent as it is not well communicated to all employees of the company.

6. Which of the two currently existing performance based bonus and merit pay incentive schemes is the most preferred one to you and Why?

An alternative question was similarly generated to evaluate and identify the preference of employees on the two currently existing incentive schemes. With reference to the response of the question, more than half percent of the respondents answered that they prefer merit pay to bonus pay. Considerable number of respondents also responded that they are in favor of bonus pay though they also have very positive perception of merit pay plan. Even though they are few in numbers there are also other research participants who are quite confused of identifying their preference and remained undecided. Most of the supporters of merit pay plan justify their reason of preference describing that merit pay incentive scheme provides permanent pay increase and directly affect the base salary of employees unlike that of a one-time bonus pay incentive.

7. Would you suggest if there is anything to be considered with regard to the current performance based incentive scheme practices being used in your company?

This final question was raised to recognize if there is any adjustment to be considered in the practice of performance based bonus and merit pay incentive scheme in Africa Village Financial Services Share Company. It is very reasonable to state the fact that almost all respondents were responded in a different fashion though they have related opinions. All respondents have freely provided their own suggestions in line with their feelings and hence their overall opinion contained the following points in common:

➢ The principle of equity need to be more considered and thus employees who contributed more could expect a higher compensation than those who contribute less.

→ The company should continuously capture and evaluate employees and provide an appropriate feedback so that the objective measurement practices will be enhanced.

→ The process that was used to decide who gets how much need to be very clear, fair and well communicated to each and every employee at all levels of the organizational hierarchy.

→ The amount of incentive schemes should be satisfactory and motivating.

→ The eligibility requirements for incentives should be achievable.

4.4.4 Summaries of Findings

Focusing on the findings obtained from the analysis of the 90 employees of Africa Village Financial Services, the following summaries of findings were made:

1. The aim of the study is to assess the perception of performance based bonus and merit pay incentive scheme and its influence on employee productivity. From the review of related literatures of the study, it is noticed that employee's perception of performance based incentive schemes had significant relationship with employee productivity. In conducting this empirical research study, the required data were obtained using structured and unstructured data collection techniques. The Instrument (structured questionnaire) was adopted from two related studies. Basically, a total of 98 questionnaires were distributed to the targeted employees; among these, 90 were   returned, which means that 8 responses were not returned. Thus, 90 returned questionnaires were analyzed using statistical package for social science. Generally, descriptive, correlation and multiple regressions analysis were performed in order to conduct the research analysis.

2. Overall, the current level of employee's perception of incentive scheme is high. The overall score according to the output of SPSS version 20.0 is presented as follows:

   Table 13: Aggregate Table of Bonus and Merit Pay

No	Twenty Items Used for the Test	Mean Score	Standard Deviation
	Overall Score	3.99	1.09

   From the above table 13, the overall response for the twenty items indicates the mean = 3.99 and SD = 1.09. The higher the mean score, the more that respondent agreed with

the respective question items and vice versa. The figures for standard deviation (SD) also indicate the degree to which responses varied from each other; the higher the figure for SD, the more variation in the responses. Therefore; this result based on Zaidatol and Bagheri (2009) mean score compression basis, the mean score = 3.99 indicates that there is high level of positive feeling towards the current performance based bonus and merit pay incentive scheme practices, which implies that, the respondents have ―strong positive reaction or feeling‖ with the existing bonus and merit pay incentive scheme practices of AVFS. Thus, from this finding it can be inferred that the respondents have positive feelings toward the existing performance based bonus and merit pay incentive scheme practices in terms of its fairness, simplicity of bonus calculation, motivation and its effective implementations. Therefore, the first hypothesis of the study is rejected and its alternate hypothesis is inevitably accepted.

3. As it is illustrated by the table 14 below, the finding of the correlation analysis result indicated that employee‘s perception of performance based bonus and merit pay incentive schemes have positive and significant relationship with employee productivity.

Table 14: Summary of Correlation Analysis

No	Employee's Perception of Bonus and Merit Pay	Employee Productivity
1	Employee‘s perception of bonus pay incentive scheme	.583
2	Employee‘s perception of merit pay incentive scheme	.641

Table 14 revealed that correlation coefficient between employee‘s perception of bonus pay incentive scheme and employee productivity is .583. The coefficient value is positive and significant showing that there exist positive and significant relationships between employee‘s perceptions of bonus pay incentive scheme and employee productivity. Similarly, the correlation coefficient between employee‘s perception of merit pay incentive scheme and employee productivity is .641. The coefficient value is similarly positive and significant showing that there exist positive and significant relationships between employee‘s perceptions of merit pay incentive scheme and

employee productivity. And therefore, the finding result indicated that employ's perceptions of both bonus and merit pay incentive scheme have positive and strong association with employee productivity.

4. The multiple regression analysis indicated that employee's perceptions of performance based incentive scheme practice have positive and significant influence on employee productivity. Based on the multiple regression coefficient tables, the following model summary was extracted to conclude the variation or quantitative associations between the variables as follows:

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + e \quad \rightarrow \quad Y = \alpha + 0.444 x_1 + 0.465 x_2 + e$$

This regression model implies that a one unit change in performance based bonus pay will result in a 0.444 time change in employee productivity and one unit change in performance based merit pay will increase in a 0.465 time change in employee productivity.

5. Moreover, the regression coefficient of employee's perception of bonus pay incentive scheme which corresponds to EPBP is 0.444 predicting that the level of employee productivity will increase by 44.40% if their perception of bonus pay incentive scheme is increased by one unit. On the other hand, the coefficient of employee's perception of merit pay incentive scheme which corresponds to EPMP is 0.465 predicting that the level of employee productivity will increase by 46.50% if their perception of merit pay incentive scheme is increased by one unit. Therefore, this finding result indicated that employee's perception of merit pay incentive scheme has larger influence on employee productivity than bonus pay incentive scheme.

6. Based on the above research findings, the test result of the five formulated hypotheses were summarized as in the table 15 below.

Table 15: Summary of Tested Hypothesis

No	Tested Hypothesis	Test Result
1	Employees have no positive reaction about the currently existing bonus and merit pay incentive scheme practices of the company.	Rejected
2	There is no significant and positive relationship between employee's perception of bonus pay incentive schemes and its productivity.	Rejected
3	There is no significant and positive relationship between employee's perception of merit pay incentive schemes and its productivity.	Rejected
4	Employee's perception of bonus and merit pay incentive scheme has no influence on employee productivity.	Rejected
5	The influence of employee's perception of merit pay incentive scheme has no larger effect on employee productivity when compared to bonus pay incentive scheme.	Rejected

Chapter Five

5. Conclusions and Recommendations

5.1 Conclusions

The major objective of the study was to investigate and assess the relationship between employee's perception of performance based bonus and merit pay incentive scheme practices of Africa Village Financial Services and its influence on employee productivity, because incentive scheme has been an issue of major concern with its long lasting impacts on the employee productivity, which in turn, leads to the overall organizational performance. The study has been successful in accomplishing its main research objectives and it can make contributions to the literature too. Thus, emphasizing on the finding of the study, the following conclusions were drawn:

First, in the descriptive analysis finding part, the researcher has been able to present the perceptions of the AVFS employees with regard to the performance based bonus and merit pay incentive scheme implementation practice wherein the employees express that they had high level of positive perception with the existing performance based incentive system being practiced by the company. The results obtained from the open ended questions also supported this finding. Nevertheless it does not mean that the entire employees of AVFS are absolutely satisfied and wholly react with the overall incentive scheme practices.

Moreover, as the response from open ended question indicates, employee's perception of performance based incentive scheme has its own significant effect on employee productivity. From the unstructured question response finding, it can be indicated that employee's perception of incentive schemes can be enhanced through exercising fairness, using participatory approach to designing incentive schemes, rewarding employees with equity and creating transparent organizational communication systems. In the same way, the finding result confirmed the fact that employee's perceptions of performance based incentive schemes have very strong association with employee productivity and have also potential impact on the overall performance of the organization.

Second, the researcher has attempted to investigate the relationship between employee's perception of performance based bonus and merit pay incentive schemes and employee productivity. Accordingly, as per the correlation analysis result revealed, employee's perception of performance based bonus and merit pay incentive schemes have positive and strong relationship or association with employee productivity.

Thirdly, the researcher has been able to study and examine the variables (employee's perception of performance based bonus pay and employee's perception of performance based merit pay incentive schemes) and their influence on employee productivity. So, from the multiple regression analysis, it can be concluded that between the dependent variable (employee productivity) and independent variables (employee's perception of performance based bonus pay incentive scheme and employee's perception of performance based merit pay incentive scheme) there exist a positive and strong relationship. The coefficient of the regression analysis further predicted that employee's perception of performance based incentive scheme practices at AVFS has positive and significant influence on employee productivity. Consequently, employees' satisfaction (well perceptions) and the existing positive reaction with the current incentive scheme implementation system have strong and positive influence on employee productivity in particular and organizational overall performance in general.

Fourth, the researcher has also intended to examine whether the influence of employee's perception of merit pay incentive scheme has larger effect on employee productivity when compared to bonus pay incentive scheme. In order to deal with this case, the researcher has tried to compare the regression coefficient result of employee's perception of bonus pay incentive scheme and regression coefficient result of employee's perception of merit pay incentive scheme. The regression coefficient of employee's perception of bonus pay incentive scheme was 0.444 predicting that the level of employee productivity will increase by 44.40% if their perception of bonus pay incentive scheme is increased by one unit and regression coefficient of employee's perception of merit pay incentive scheme was 0.465 predicting that the level of employee productivity will increase by 46.50% if their perception of merit pay incentive scheme is increased by one unit. As a result, basing on this research finding, the

researcher has reached a conclusion that employee's perception of merit pay incentive scheme has larger influence on employee productivity than bonus pay incentive scheme.

5.2 Recommendations

For employees of an organization, a sound performance based incentive scheme implementation system must be in place so as to exert their maximum efforts towards the realization of organizational objectives and goals. In situations where employees are not aware of what they are expected to get if they better perform, that is, the consequences that their performance would bring to them, it is very tough to expect better productivity.

Hence, On the basis of the findings and conclusions reached, the following recommendations were made to further enhance the perception of employees through improving the existing performance based incentive scheme implementation practices at AVFS:

The finding on the descriptive analysis indicates that employees are not as such satisfied with the existing performance based incentive scheme implementation practices of the company and the following areas are identified as an indication for the lack of very high level of perceptions of the current incentive scheme practices. Therefore, these findings have some sort of managerial implications in order to create and enhance the level of perceptions on the mind of the employee and meet the required positive and very high level of perceptions of the existing incentive schemes.

Therefore, the company needs to have a well and systematic practice of performance based bonus and merit pay incentive schemes and should change the prevailing employee's perception of incentive schemes to the desired level of very high positive perceptions through realizing the following activities:

➢ Make incentive scheme implementation system participatory whereby employees are allowed to participate plus ensure transparency among employees.
➢ Design systematic ways as to how to communicate employees' performance rating results and the established criteria against which they are going to be rewarded.

- Regular reviewing of the performance of employees against performance target standards and recognize accordingly.

- Make aware of employees of the current incentive scheme implementation procedures and properly react when employees feel discomfort and reflect negative perceptions.

- The company should give due attention for the continuous improvement of the current incentive package and work towards creating confidence and trust on the existing incentive scheme implementation practices.

- AVFS management team needs to take great initiation and readiness to develop a well-designed incentive system and exercise a fair and transparent incentive scheme implementation practices throughout the whole process.

- There should be appeal procedures to manage any deviations or dissatisfaction with regards to the implementation of incentive packages. So, human resource department with an integration of other pertinent bodies should play a vital role in the overall process of performance based incentive scheme practices.

- Finally, it is forwarded that future research has to be done on other similar Microfinance sectors in a more completed and comprehensive manner focusing on a larger population size.

5.3 Suggestion for Future Research

1. To make this study more comprehensive, a large population of employees working in Microfinance sector which experiences similar type of incentives should be surveyed.

2. The researcher recommends that future research need to investigate the relative influence of demographic variables on employee's perceptions of performance based incentive schemes.

3 To make generalization, similar type of research need to be conducted in different Microfinance sectors since this study is conducted on only one MFI known as Africa Village Financial Service Share Company.

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Annex 1: Research Questionnaire for Data Collections

Employee's Perception of Performance Based Incentive Schemes and Its Influence on Employee Productivity: The Case of Africa Village Financial Services Share Company

Purpose: The purpose of this survey is to obtain information from Africa Village Financial Service (AVFS) employees regarding their perceptions of performance based incentive schemes and its influence on their productivity. Your cooperation in providing honest and prompt responses to the research questions would be very much appreciated. You are also assured of the privacy and confidentiality of your responses.

Part 1: Demographic Information

Please tick (√) option that best describes you.

1. Gender

   Male ☐   Female ☐

2. Age

   Below 25 ☐   25-30 ☐   31-40 ☐   41-50 ☐   51-60 ☐   Over 60 ☐

3. Marital Status

   Single ☐   Married ☐   Divorced ☐

4. Which staff category do you belong?

   Management Staff ☐   Operation Staff ☐   Support Staff ☐

5. How many years have you worked for your current organization?

   Below 2 ☐   2-4 ☐   5-7 ☐   8-10 ☐   11-15 ☐   Over 15 ☐

6. What is your highest level of education?

   Below 10+2 ☐   10+2 ☐   Diploma ☐   Degree ☐   MA ☐

Part 2: Close Ended Research Instruments for Data Collection

Directions: Please put a tick mark (√) in the appropriate place for each item to express your view and level of agreement with the statements.

Hint: Please use the following key for your information:

- ➲ 5(Strongly Agree) ➜ if your level of agreement is very high in the measured attribute.
- ➲ 4(Agree)➜ if your level of agreement is above average in the measured attributes.
- ➲ 3(Not Sure)➜ if you are not so sure of the measured attribute.
- ➲ 2(Disagree)➜ if your level of agreement is below average in the measured attribute.
- ➲ 1(Strongly Disagree)➜ if your level of agreement is very low in the measured attribute.

No	Question Items	Rating Scales				
I	**Assessment of employee's perception of bonus pay incentive schemes**	**5**	**4**	**3**	**2**	**1**
1	The currently existing performance based incentive scheme is enabling me to improve my efficiency and productivity.					
2	A well-designed bonus pay incentive program can boost my performance.					
3	I do feel that the existing bonus pay incentive scheme is inspiring me to a higher productivity.					
4	Performance based bonus pay has a positive input on my productivity.					
5	I feel that the established bonus pay incentive standards are really motivating and attainable.					
6	I am very satisfied with the way bonus pay incentive scheme is put into practice.					
7	I feel bonus pay incentive schemes as a sign of empowerment where employees who produce much productivity are more rewarded.					
8	Rewarding good work and excellence by means of performance based bonus pay can contribute to more excellence and healthy competition.					
9	I feel comfortable with the calculation of bonus pay incentive schemes.					
10	In general, I am almost optimistic toward the performance based bonus incentive scheme being implemented.					
II	**Assessment of employee's perception of merit pay incentive schemes**	**5**	**4**	**3**	**2**	**1**
11	My company provides merit pay incentives for me according to my post and consistent with my level of productivity.					
12	I strongly feel that performance based merit pay is the right form of reward as it ensures my permanent pay increase as a function of my superior performance.					

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13	Merit pay incentive scheme is strongly associated with my performance rating.					
14	The management of the company is fair in the implementation of performance based merit pay incentive scheme.					
15	By means of performance based merit pay scheme, my individual efforts and achievements are well recognized.					
16	A well designed merit pay incentive scheme has a high tendency to enhance my productivity.					
17	The detailed procedures of the performance based merit pay are clearly communicated to all employees of the company.					
18	I am confident that performance based merit pay incentive scheme is very successful in improving employee productivity.					
19	The existing merit pay incentive scheme is encouraging me towards exhibiting the desired behavior to enhance productivity.					
20	Performance based merit pay incentive scheme has greater effect on my productivity than bonus pay incentive scheme.					
III	**Employee's perception of incentives and its influence on productivity**	**5**	**4**	**3**	**2**	**1**
21	Providing desired incentives to eligible employees can motivate and lead to superior employee productivity.					
22	My devotion and commitment to render services in the company is greatly influenced by the incentive scheme package of the company.					
23	My workload has increased as a result of the implementation of performance based bonus and merit pay incentive schemes.					
24	When I get rewarded because of my superior performance, I am more inspired to the level of excellence.					
25	I do feel that my perception of the capability to exceed my target productivity level is strongly influenced by the company's incentive policy.					
26	The total incentive packages provided to me has a positive influence on my performance					
27	I feel that the existing incentive scheme program is empowering me to be more productive in my work.					
28	Performance based bonus and merit pay incentive schemes have a significant effect on my individual performance.					
29	Due to the existence of fair and transparent implementation of the incentive scheme practice, I am in favor of its positive influence on my productivity.					
30	I feel that incentive packages have an impact on employee productivity.					
31	Performance based incentive scheme has encouraged me to exert more effort and improve my productivity.					
32	Employee incentive schemes can be a cause for employee satisfaction which can have positive influence on employee productivity.					

Part 3: Open Ended Research Instruments for Data Collection

1. What is your perception towards the existing performance based bonus and merit pay incentive schemes? Please clearly state your positive and negative feelings, if any.

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2. Do you feel that the existing performance based bonus and merit pay incentive schemes will enable you to further improve your productivity? How?

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3. Do you think that employee's different perception of incentive schemes has its own influence on employee productivity? How?

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4. Are you satisfied with the existing incentive scheme benefits? If your answer is ˍNo', please state your main source of dissatisfaction.

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5. Do you think that the implementation of performance based incentive schemes in AVFS is fair and transparent? Would you briefly give your justification for your response?

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6. Which of the two currently existing performance based bonus and merit pay incentive schemes is the most preferred one to you and Why?

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7. Would you suggest if there is anything to be considered with regard to the current performance based incentive scheme practices being used in your company?

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   ✈ **Thank you for sparing your precious time. Remain Blessed!**