



**THE EFFECT OF INCENTIVE SCHEMES ON EMPLOYEE
PERFORMANCE: THE CASE OF NYALA MOTORS S.C**

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY
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STATEMENT OF DECLARATION

I, the undersigned declare that the research entitled “The Effect of Incentive Schemes on employee Performance” the case of Nyala Motors S.C. 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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June, 2018

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This is to certify that the thesis prepared by Tesfaye Fantu G/Senbet, entitled: The Effect of Incentive Schemes on Employee Performance; The case of Nyala Motors S.C and submitted in partial fulfillment of the requirements for Master of Arts Degree in Human Resource Management complies with the rules and regulations of the University and meets the accepted standards with respect to originality and quality.

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CERTIFICATION

This is to certify that the research thesis titled “The effect of incentive schemes on employee performance” The case of Nyala Motors S.C. (NMSC), has been reviewed and submitted in partial fulfillment of the requirements for award of the degree of Master of Arts degree in Human Resource Management complies with the rules and regulations of Addis Ababa University School of Commerce.

TekelgiorgisAssefa (Asst. Prof.)

Advisor

June, 2018

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List of Acronyms

DV – Dependent Variable

HR – Human Resource

IV– Independent Variable

NMSC – Nyala Motors Share Company

S.C – Share Company

SPSS – Statistical Package for Social Sciences

VIF – Variance Inflation Factors

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Abstract

In the current competitive business environment, automotive industry is facing a lot of challenges particularly getting the qualified employees and retaining them. This study provides an overview of evidence of the effect of incentive schemes on employee performance in Nyala Motors S.C, The objective of this research was to assess and examine the relationship between incentive schemes and employee performance. The theoretical part of the study introduces different theories of incentives, motivation and performance. The quantitative research approach used through primary data collected from 96 respondents. Probability sampling has been chosen because the respondents were selected using stratified sampling technique. A structure Likert Scale format questionnaire has been used for data collection. The questionnaire consist of two parts; the first part of questionnaire comprises demographic respondent data while second part comprises three variables questions. The data obtained were analyzed using Statistical Packages for Social Science (SPSS) program, descriptive analysis, normality test, reliability test, multicollinearity test, Person's Correlation and Multiple Liner Regression were conducted in order to interpret the data. Statistical analysis were performed with the data in order to test the three main research hypotheses. The main findings indicate that there is high and moderate relationship between financial and non-financial incentives on employee performance and has a high positive significant effect incentive schemes on employee performance within the company. To improve employees work performance, the researcher recommended that adopting different kind of incentive schemes, seek and obtain feedback on how employees perceive incentives and develop a sound retention and attraction mechanisms. This study will help the company management to an implementation of incentive schemes system.

Keywords: *Incentive Schemes, Financial Incentive, Non-Financial Incentive and Employee Performance.*

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Human resource is now seen as the primary resource of a company's competitive advantage. Therefore, the way people are treated increasingly determines whether an organization will prosper or even survive. To ensure that people are treated fairly, organizations are acknowledging that they need to establish an equitable balance between employee contribution to the organization and the organization's contribution to the employee. The main objective of company incentive scheme is to attract, retain high performance employee, motivate, satisfy and get maximum employees' performance that helps owners pursue their interests, by achieving higher outcome and better quality. Incentives are often used by organizations to encourage their employees to work hard (Armstrong & Taylor, 2014).

Compensation is integral and utmost part of any organization and the management periodically and annually examines it in detail. The compensation comprises incentives, salary, bonus and other benefits that a firm has to give to their workers. In the 21st century the work scenario has been changed, the employee not only demands monetary rewards but extra benefits also. Satisfied employees with their work and salary are more motivated and they work harder because they know that after completing a certain level of goals they would be rewarded. Dissatisfaction from job and incentives demotivate the employee that lead to increasing in absenteeism, and job turnover rate in the organization (Decenzo & Robbins, 2006).

Currently, organizations are operating in a very dynamic and highly competitive environment to remain relevant in the market and they are expected to respond quickly to ever changing

customer demands (Najanja, Maina and Najagi, 2013). Incentive schemes are expected to improve interpersonal relationships, job satisfaction, customer satisfaction, internal processes and the organization's innovation and improvement activities. All of which should produce lasting effect on company performance (Carolina, 2010).

Incentive systems refer to performance linked compensation paid to improve motivation and productivity of employees. They are designed to stimulate human efforts for improvement in the present and for the future goals. Incentives are used by organizations in order to reach certain goals, encourage a certain behavior and team-spirit for collective awards. Incentive systems are not universally applicable, but are likely to play a role in enhancing individual effort or performance where the conditions and the scheme designed are right (Manjunath and Rajesh, 2012).

Motivation begins with the realization that individual have needs or expectations that they want to achieve. These needs become a driving force to accomplish desired goals. Fulfilling the desired goals gives a sense of accomplishment or satisfaction which ultimately leads to performance and productivity. As a result company incentive scheme is influenced by the need of its employee's to get the desired outcome on employee's satisfaction, motivation and performance (Armstrong & Taylor, 2014).

The basic focus here is motivation done by offering incentive to employees. Though incentive may be in different format, well-designed staff incentive schemes can have positive and powerful effects on the productivity, efficiency and quality of company operations. Conversely, poorly developed schemes can have serious detrimental effects. Incentive schemes must be transparent so that staff members affected should be able to easily understand the mechanics of the calculation (Wiley, 1997). Thus, the system should not be overly complex and should contain as many objective factors and as few subjective variables as possible.

Employee perception is a factor that can make a huge difference in the quality of the workplace. Perception is the process of people use to make sense out of the environment by selecting, organizing and interpreting information from the environment (Daft, 2000).

Employee performance refers to the outcome, accomplishment of work as well as the results achieved, which is linked to the strategic goals of the organization, customer satisfaction and economic contributions. Armstrong continues to indicate that performance has to be managed

by taking systematic action to improve organizational, team and individual performance (Armstrong, 2009).

In order to for Nyala to survive this situation it should retain quality human resources at all levels that can plan as well as execute the plan. Effective incentive schemes can help an organization to achieve its business objectives by attracting and retaining competent people. In doing so, Nyala can maximize its retention and attraction capacity to receive maximum contribution from its staff.

This study focused to determine the effect of incentive schemes on employees' performance in Nyala Motors S.C. financial and non-financial incentives are the tools to motivate the employees to be engaged with in better performance in their organization.

1.2 Background of the Company

Nyala Motors S.C. was established in April 1973 in line with the commercial code of Ethiopia by five founder members with a registered capital of Birr 50,000.00. When the company was set up in 1973 it began its operation with the sales of Datsun automobiles and today it has become Exclusive Distributor for world class brands in Ethiopia representing **Nissan Motor Co. Ltd, UD Trucks Corporation, UniCarriers Forklifts Co. Ltd, VE Commercial Vehicles and Macpower Automotive Battery.**

Nyala Motors is operating in Addis Ababa and its five branch offices in the major regional cities of the country (Bahir-Dar, Dire-Dawa, Hawassa, Jimma and Mekele) and is thus well represented for both sale of vehicles and machineries and aftersales business throughout the country.

Nyala Motors S.C. is currently operated in three types of business services that rendered by the Company (3S), where 3S stands for Sales (vehicles and machineries), Sales (spare parts) and Sales (service/maintenance) to give the best service to its customers.

Vision

“To be the leading national assembler and distributor of superior quality Vehicles, Trucks and Machineries supported by reliable aftersales service”

Mission

“We strive to be customer oriented national company that is socially responsible and can bring growth through delivery of better products and services”

Values

- The success of the company should be measured by the contribution it gives to Shareholders, Employees, Government and Community.
- Our company's motto is safety and quality comes first
- Working towards customers satisfaction
- Team work

Organization

Nyala Motors S. C. has a total of 254 employees at the end of December 31, 2017. The internal organization of company consist of four divisions and seven departments that enables the company to give the best service to its customers. In line with the company's commitment to be close to its customers and avail modern aftersales facility it has established five branches in five corners of the country. Following the establishment of branches and sub-dealers network, the customers have been privileged to have easy access to genuine spare part sales and maintenance services provided by the company.

1.3 Statement of the Problem

In every organization human resources are the most valuable assets. One of the core competencies in organization is depending on the acquired human resources. One of the most important tools at the hand of any business management to attract and retain competent human resource is administering effective incentive schemes. Well designed and implemented incentive schemes can significantly enhance employee performance through improving their morale, provision of job security and motivation among others (Holtmann, 2005).

The study on employee motivation states that motivational incentives can produce better employee performance. In essence, few of these studies are supported by an explanation of how incentives in work place affect employee performance (Torrington 2008)

Incentives are important in motivating and satisfying the need of employees to be productive and perform well, employees leave the company due to the fact that employees are not motivated enough and low performance becomes the end result of the company.

In today's competitive organizational world having a satisfied workforce so as to fulfill the organization's mission or goal is vital. As of every organization the company's survival in a

competitive automotive industry is by having a satisfied workforce. One of the means to create and retain a satisfied workforce is through installing attractive, fair and equitable incentive system or practices.

Currently, most employees of the company are discussing informally about the incentive schemes at hand and the researcher conducted a survey on the company's incentives and found that the respondents were not satisfied with the absence of commission and share ownership and they are also concerned about their opportunity for career development (promotion) and training, because the promotion and the training strategy of the company is not fair, clear and justifiable. Even if the company promises to maximize the development and upgrading of its employee's skill and knowledge, it seems that it is not applicable as promised.

The annual attrition rate of the company 8% for the year 22 employees were resigned from the company within one fiscal year (HR department report, Jan, 2016), those employees who left the company for a variety of reasons, but they are more likely to leave potential employees adversely affecting the competitiveness of the company. According to the problems associated with assumptions, this study is sought to assess and examine "The effect of incentive schemes on employee performance" in the company, by emphasizing on financial and non-financial incentives variables".

Therefore, the purpose of the study was to assess and examine this specific gap and prompts the research questions on employee incentive schemes at Nyala Motors and scrutinize its influence on employee performance.

1.4 Research Questions

Based on the above stated problems the study attempts to address the following research questions.

- What is the perception of the employees on the incentive schemes practices?
- What is the relationship between incentive schemes and employee performance?
- What is the effect of an incentive schemes on employee performance?

1.5 Objective of the Study

The main objective of the research was to assess and examine the incentive schemes of the company and conducted study their relationship with the employee performance.

In summary the objectives of the study were to

- To assess the employees perception towards the incentive schemes practices.
- To examine the relationship between incentive schemes and employee performance;
- To determine the effect of incentive schemes on employee performance;

1.6 Research Hypothesis

Hypothesis is a tentative explanation that accounts for a set of facts and can be tested by further investigation. In order to address the objectives of the study and deal with the research questions, the following hypotheses were formulated.

H1: There is a positive and significant relationship between financial incentives and employee performance.

H2: There is a positive and significant relationship between non-financial incentives and employee performance.

H3: The perception of incentive schemes has a significant and positive influence on employee performance.

1.7 Scope of the Study

The scope of the research focused on managerial, supervisory, sales, technical (technician) and professional support staff working in the head office and its five branch offices (Bahir-Dar, Dire-Dawa, Hawassa, Jimma and Mekele) in the main cities of regional states. However, clerical, non-clerical, junior staff and those newly employed staff who are on apprentice program were not included in the study. Therefore, this study cannot cover all aspects of incentive schemes on the employee performance. This is due to time and other resource constraints that compelled the researcher not to conduct in other automotive companies in Ethiopia.

1.8 Significance of the Study

Organization can make a difference if they have qualified and competent work force who are motivated for work. Hence, owners and leaders have to be aware of that their employees are incentivized and motivated properly to bring the intended purpose of their organization.

Having the above in mind the study shall add valuable insights to the existing practices and based on the research findings the company may improve its existing reward and performance management practices. In addition it is hoped that the study will provide important information and serve as secondary data for further research on the topic.

1.9 Limitations of the Study

The study focused only in one company which is Nyala Motors S.C to examine the effects of incentive schemes on employee performance is the main limitation of this work, which may hinder the generalizability of the study findings in other automotive industry. While the study relates to the incentive packages that might affect employees' job performance, it has only focused on eight (four for financial and four for non-financial) dimensions. A study might be incorporating a range of additional incentive dimensions, which are related with financial and non-financial types, might have yielded a better understating of its effect on employees' performance.

The other major problem was lack of awareness among the respondents to fill out questionnaires with due care and return them on time. Some employees were not willing to fill out questionnaires. These were the challenges that the researcher had faced.

1.10 Organization of the Study

The study paper has organized in five chapters i.e. Chapter one presented the background of the study and company, statement of the problem, research questions, objectives, significance, and scope of the study and definition of terms. Chapter two presents the literature review related to the topic under study. It further presents the theoretical concepts, empirical literature studies, the conceptual framework and the hypothesis of the study. Chapter three deals with the research methodologies, which include research approach, design, population, sample technique and sample size, data collection and instrument, data analysis method and research variables in the study. Chapter four discusses the empirical findings of the study that includes data presentation, analysis and interpretation. Based on the findings of the study, the fifth chapter presents summary, conclusion and recommendation of the study.

1.11 Operational Definitions

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

Incentive: Something that motivates employees to achieve certain objectives or meet a target.

Compensation: The results or rewards that the employees receive in return for their work.

Rewards: Recognition to employees for their achievements and contributions.

Incentive Schemes: A mechanisms that has been designed to recognize some specific change in behavior.

Financial Incentives: Money based rewards given when an employee meets or exceeds expectations.

Non-financial Incentives: A compensation given in a transaction which does not involve cash.

Motivation: The realization that individuals have needs or expectations that they want to meet.

Employee Performance: A person executes their specific job duties and responsibilities well.

Employee Perceptions: An individual gives meaning and interpreting to the work environment.

Performance Based Incentive: Any incentive scheme that seeks to link pay to individual or group performance based on pre-established criteria and goals.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

The chapter provides the literature review of all findings related to this research. The theoretical foundation has explained on the theory that is closely related with this research. Also, a review of past empirical studies which is related to this research topic is also included in this chapter. The proposed conceptual framework or research model and hypothesis were developed.

2.2 Overview of Incentive Schemes

Compensation is integral and utmost part of any organization and the management periodically and annually examines it in detail. The compensation comprises incentives, salary, bonus and other benefits that a firm has to give to their workers. In the 21st century the work scenario has been changed, the employee not only demands monetary rewards but extra benefits also. Satisfied employees with their work and salary are more motivated and they work harder because they know that after completing a certain level of goals they would be rewarded. Dissatisfaction from job and incentives demotivate the employee that lead to increasing in absenteeism, and job turnover rate in the organization (Decenzo & Robbins, 2006).

2.2.1 Incentive Schemes

Incentive schemes as defined by Graffin and Ebert (1993), are special pay programs designed to motivate high performance. Incentive schemes attempt to link at least a portion of pay to job performance to encourage higher productivity. 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). In this study, financial and non- financial incentives are designed to motivate employees to improve their performance, to increase effort and output and by producing better results expressed in such terms as objectives for profit, productivity, sales turnover, cost reduction, quality customer service and on time delivery.

Incentive schemes relate compensation to productivity. A primary purpose of an incentive scheme is to encourage greater productivity from individuals and work groups. The term incentive refers to something that intends to ignite one and/or calls for greater effort to act in a given manner. According to Hicks & Adams (2003), incentives are mechanisms aimed at achieving a specific change in behavior. Whereas performance refers to how well an employee fulfils assigned task through effort and skill, an incentive refers to an inducement for a desired action. Incentive pay is a form of compensation given to employees upon attainment of some form of job performance (Armstrong, 2009).

According to Torrington, Hall & Stephen(2008), Incentive is here described as an element of payment linked to the working performance of an individual or working group, as a result of prior arrangement. This includes most of the payment by results schemes that have been produced by work study, as well as commission payments to sales people, skill-based pay schemes and performance related pay schemes based on the achievement agreed objectives. The distinguishing feature is that the employee knows what has to be done to earn the payment, though he or she may feel very dependent on other people, or on external circumstances, to receive it.

Incentives are designed to encourage performance of individual's regardless of the different type of incentives form used. Incentives play an active role in pushing forward individual's capacity and moving abilities, motivating them to develop their skills, and balance between organization requirements and the individual needs which enhance the organization performance efficiently and effectively (Marwan, 2012).

Incentives are used by organizations in order to reach certain goals, encourage a certain behavior and team-spirit for collective awards. Incentive systems are not universally applicable, but are likely to play a role in enhancing individual effort or performance where the conditions and the scheme designed are right (Manjunath and Rajesh, 2012).

Organizations use different type of incentive schemes to motivate employees. Incentives are designed to get the maximum performance from the employees and help retain the most productive among them. Incentives are divided into financial incentives and non-financial incentives which is also known as monetary or non-monetary incentives (Luthans, 2003).

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).

2.2.2 Types of Incentive Schemes

Generally, incentive schemes are classified into two types: financial incentive and non-financial incentives which is also known as material or non- material incentives. Material incentives according to Hongoro and Normand (2002), are those provided for specific group of workers to motivate them for a specific behavior. Non-material (non-financial) incentive schemes on the other hand are directed at moral motivation to serve in the interest of the community. However, classified incentives into individual incentives and group incentive schemes. For this research, the following specific incentive programs are relevant to organizations to motivate the employees:

2.2.2.1 Financial Incentive Schemes

Financial incentives mean the amounts paid to employees, either in the form of a lump sum or in the form of monthly payments including all additional income for the individual. They are considered the oldest forms of incentives which characterized by quick and immediate form that make individuals feel of an immediate feedback of their effort. Money whether it is in the form of wages, piecework or any other incentive pay, bonuses, stock options, company –paid insurance, or any other things that may be given to people for performance is important. The way to ensure that money has meaning, as a reward for accomplishment and as a way of giving people pleasure from accomplishment, is to base compensation as much as possible on performance (Pamela, 2015). The following are the most financial incentive schemes:

Bonus Incentive: Bonus incentive is a payment on the accomplishment of planned specific objectives. The intent of this incentive scheme is to influence certain behaviors towards the attainment of goals or set objectives. Once the objectives are met, the payment is made (Gomez-Mejia, 2014).

Cash Incentives: This is payment for performance that meets established criteria. Employees are paid certain sum of money or savings bond. Successful suggestions, for example, are recognized with a sum of money equal to the fraction of the cost of the savings attributed to the suggestion.

Piece Rate: Under this incentive scheme, a uniform price is paid per unit of production. Employees may therefore be compensated according to the number of pieces they produced or processed. Compensation is therefore directly proportional to the level of productivity or results obtained. The scheme is easy to calculate and employees may determine or predict their rewards in the short term and regulate their pace of work in accordance with the level of compensation they want to attain (Ugwu Ude and M.A.Coker, 2012)

Commission: Used typically with sales people, commissions are incentive compensation based on a percentage of total sales. A good number of sales people work on a salary (base pay) plus commission. Others work on a straight commission basis only. Commission according to (Armstrong, 2009) is intended to act as an incentive, a reward and a means of recognizing achievement. A commission only incentive scheme provides a sales person for example, with incentive payment based on a percentage of the sales turnover they generate, while a base salary plus commission scheme provide for a proportion of total earnings to be paid in commission, and the rest in a fixed salary.

Profit Sharing: Profit sharing is an incentive compensation plan that results in the distribution of a predetermined percentage of the company's profits to employees. This plan is used to integrate the employee's interests with those of the company. It is the payment to eligible employees of sums in the form of cash or shares related to the profits of the company during a specified period of time(Nwachukwu, 2009). This scheme is claimed to increase employees' commitment to their company by linking pay to profit and hence improve the level of mutual interest. A profit sharing plan is designed to pay out incentives when the company is most able to afford it and it may come in the form of current distribution plan, deferred plan and combined plan.

Gain-sharing:(Armstrong, 2009) emphasizes that gain-sharing is a formula- based company or factory wide incentive plan that provides for employees to share in the financial gains resulting from increases in added value or another measure of productivity. Gain-sharing

plans (also known as productivity incentives) generally refer to incentive plans that involve many or all employees in a common effort to achieve a company's productivity objectives. Gain sharing aims to relate the payouts much more specifically to productivity and performance improvements within the control of employees.

Golden handcuffs: Sometimes called retention or loyalty incentives, golden handcuffs are used by a company to retain talented employees by demonstrating that they are valued for their contributions and by working fairly and consistently. Golden handcuffs make it difficult and costly for an employee to leave the organization. Golden handcuff packages include share options for managers, high salary scale, and high retirement benefits. The standard established by this incentive scheme is too high for any other company to meet up. This is why the scheme is called "golden or executive handcuff"; it ties the employee fully to the organization. This scheme is one of the recent incentives provided to employees in many private organizations.

Share Ownership: This plan intends to make employees co-owners of the company. It creates a provision for employees to have a stake in the company and longer term compensation by giving them options to buy shares at a future date for their current market price. Stock options are motivational to employees because they confer on employees the right to buy the company's stock at a specified price.

The individual gains several psychological and social benefits as a result of enhancing his/her purchasing power to satisfy his/her needs of goods and services. But financial incentives alone are not sufficient unless assisted by other types of incentives. Their effects are limited to satisfy the biological needs of individuals and have a little impact after it reaches the limit of needs. Therefore individuals are not seeking to increase production for additional financial gains, thus cannot be financially motivated to contribute in increasing production except for a certain amount based on their efforts (Marwan, 2012).

2.2.2.2 Non –Financial Incentive Schemes

Non-financial incentives are those related to aspects of psychological needs, the increased attention to this aspect came after the emergence of human relations theories. Those incentives are based on respect of a human being who has feelings, hopes and aspirations. It could be in the form of participate in decision-making, training, career development (promotion) certificates of thanks and appreciation (Marwan, 2012). Specifically, the following are the major non-financial incentive schemes:

Recognition: Employee recognition as an incentive, offer relatively low cost but high-impact means to reward to employees. This recognition could be done by holding annual dinners, luncheons, banquets etc...at which high-achievers or performers are celebrated. Other recognition techniques include the distribution of T-shirts, certificates and gold nameplates. Sometimes high performing employees are featured in organizational in house newsletters and in some cases are the subjects of press releases.

Career Development (Promotion): A movement of a position in which responsibilities and presumably prestige are enhanced and empowerment is also the process which enables employees to set their own work goals and solve problems within their sphere of responsibility and authority can be considered as incentives.

Training. The provision of a formal training scheme is important. As Herzberg stated, without training, workers will not be able to fulfil their potential. Training can be on-the-job, learning by doing, or off the job, such as studying at a local or abroad training institutes. On the job training has costs such as management or supervisor time spent training, and potential reduction in quality of output. Off the job training, means lost production, and disruption, also the newly qualified worker may seek to use his qualifications to seek better employment elsewhere.

Working Conditions: A positive working environment is an important element in efforts to recruit and retain staff. This includes providing a safe working environment for staff and proactively responding to emerging risks, as well as creating a positive organizational culture. In this sense, every member of an organization in the way that they deal with their own work demands, their colleagues and their customers can play a role in providing a positive environment where people will want to work.

Special Opportunities: Available records suggest that management in some organizations used special opportunities as incentive schemes. These special opportunities include the chance to experience work autonomy and clarity of roles and responsibilities, job security, sabbatical and study leave, recreational facilities, favored assignments, flexible working hours, coaching and mentorship can be considered as non-financial incentives to employees

2.2.3 Individual Incentives: Under an individual incentives mechanism, there is a direct link between individual performance and remuneration. Such incentives can lead to a rather narrow focus, however, and may reduce staff members' intrinsic motivation or could promote unhealthy competition, furthermore, in some situations it is hard to distinguish properly between individual and group performance, which makes it difficult to design and implement

a scheme that is transparent and fair, individual incentive schemes are often used for credit officers. (Holtmann, 2005).

2.2.4 Group Incentives: A group incentives scheme is designed to promote effective teamwork, as the bonus is dependent on the performance and output of the team as a whole. Under group incentive plan, each employee is paid incentive on the basis of collective performance of his/her group to which he belongs. Within the group, each employee gets an equal share of the incentive. Incentives help to drive performance by influencing important individual and organizational behaviors. Incentives therefore seek for levels of reward that vary depending on the contribution of the individual, team and operating organization overall, business success. Incentives can be used to reward targets which may be measured by quality, by quantity or by both (Hall, 2004).

2.3 Purpose of Incentive Schemes

According to Caruth, Middlebrook and Frank (1982), the general purpose of incentive schemes is to increase productivity in the organization. By relating compensation to output, an employer is attempting to induce workers to turn out a greater volume of work thereby lowering the cost of producing a single unit of output. Specifically, the purpose of incentives to both an employee and the organization is to:

- Improve motivation
- Tie pay to performance
- Recognize differences in employee performance
- Increase competition among employees
- Attract and retain productive employees
- Reduce absenteeism
- Reduce idle time
- Reduce or control costs
- Utilize equipment more effectively
- Relate increases in compensation to increases in productivity
- Avoid additions to employees
- Create uniform processing costs
- Direct efforts toward achieving organizational objectives and so on

2.4 Conditions for Effective use of Incentive Schemes

Caruth (1986) stated that incentive schemes are not a panacea for an organizations productivity problems are not they universally applicable to all types of work organizations. Effective use of incentives hinges upon a number of conditions. In general, these conditions are: the nature of work itself, control systems and the human responses to incentives. Specifically, the following are the conditions necessary for the administration of an effective incentive schemes:

- Direct relationship between effort and output.
- Readily identified units of output
- Even and continuous work flow
- Standards of performance
- Quality standards
- Measurement systems
- Opportunity for cost reduction
- A good unit cost system
- Sufficient financial inducement
- Reasonable time spans for payment
- Reliable stable technology
- Selective application
- Top management commitment

2.5 Effects of Incentive Schemes

The effects of incentive schemes as emphasized by Rajkumar (1996) can be organized under the following categories:

- **Sociological effects** - Incentives assemble employees into various social groups, serving as group motivators. Group incentive plans encourage employees to be acknowledged as significant partners of a team. The teamwork tends to discourage marginal performance by any member who may be enticed to be aberrant. It also eases individual enmity.
- **Economic effects** - Greater productivity outcome from incentive plans will lead to lower consumer cost, increased purchasing power, and improved living standard of the employees. Incentives also encourage the employees to offer suggestions for

improvement, discover different tools, methods, and equipment for more efficient operations to increase productivity and profitability.

- **Effect on employees** - Employees on incentive plans will provide greater attention against interference or stoppage caused by faulty equipment, material shortage or lack of production standards and report conditions that lead to unhealthy industrial relations.
- **Effect on cost reduction** - The design of incentive plans must allow for changing technologies and focus on all factors of production and not just labor alone. It should not ignore opportunities for cost reduction in areas such as efficient utilization of materials, supplies, and cycle time.

2.6 Employee Motivation

Herzberg investigated the question “what do people want from their jobs?” through this question, Herzberg identified the factors that lead to extreme satisfaction (motivators) and extreme dissatisfaction (hygiene). Factors leading to satisfaction such as achievement, recognition, responsibility, the work itself, advancement and growth are also called intrinsic factors, whereas those leading to dissatisfaction, when not present, such as company policy and administration, supervision, interpersonal relations and working conditions are called extrinsic factors. Herzberg argued that there are two distinct human needs portrayed, namely as physiological need that can be fulfilled by money, for example to purchase food and shelter and the physiological need to achieve and grow and this need is fulfilled by activities that cause one to grow (Pamela, 2015). Motivation factors are related to work content while hygiene factors are related to work environment.

Motivation is initiated by the conscious or unconscious recognition of unsatisfied needs. These needs create wants, which are desires to achieve goals or obtain something. Goals are then established which will satisfy these needs and wants and a behavior path is selected in which it is expected and will facilitate the achievement of the goal. It is assumed that if the goal is achieved the need will be satisfied and the behavior is likely to be repeated, next time a similar need emerges. If the goal is not achieved the same action is less likely to be repeated (Armstrong, 2009).

Maslow’s theory of motivation stated that employees to satisfy five need levels: physiological needs, security need, belongingness need, self-esteems and self-actualization. Behavior is therefore motivated by unsatisfied needs (Chukwuma & Obiefuna, 2014).

Employee motivation forms the foundation that enables the organization to raise the confidence of staff, give them a unified approach to work more aggressively, help staff to identify and capitalize on individual strengths, match training emphasis to practical needs of the organization, and cultivate lines of communication with fresh ideas and innovation (Alexander, 2002).

Incentives must be affordable, transparent and appropriate to the business and the jobs that they relate to. It is worth introducing them after consulting with staff or unions. Managers should therefore look at whether other incentives will increase staff motivation. For instance, in a sales environment an employer may wish to offer extra pay or benefits when targets are achieved (Hall, 2004).

2.7 Related Theories

Although several theories explaining the effects of incentives on effort have been offered. These four theories represent the predominant explanations offered for the effects of incentives on effort direction, perception, duration, and intensity. The theories are expectancy theory, equity theory, agency theory (via expected utility theory) and goal-setting theory.

Expectancy theory (Vroom, 1964) proposes that people act to maximize expected satisfaction with outcomes. Expectancy theory posits that an individual's motivation in a particular situation is a function of two factors, the expectancy about the relationship between effort and a particular outcome (e.g. a certain level of pay for a certain level of performance), referred to as the "effort-outcome expectancy" and the valence (attractiveness) of the outcome. The motivation created by these two factors leads people to choose a level of effort that they believe will lead to the desired outcome.

Equity theory (Adams, 1963) suggests that employee perceptions of what they contribute to the organization, what they get in return, and how their return-contribution ratio compares to others inside and outside the organization, determine how fair they perceive their employment relationship to be. Perceptions of inequity are expected to cause employees to take actions to restore equity. Unfortunately, some such actions (e.g., quitting or lack of cooperation) may not be helpful to the organization.

Agency theory (Baiman, 1982, 1990; Eisenhardt, 1989), via its assumption that individuals are expected utility maximizers, adds further structure in explaining the effects of incentives on effort. Specifically, a fundamental assumption of agency theory is that individuals are fully rational and have well-defined preferences that conform to the axioms of

expected utility theory. Further, individuals are presumed to be motivated solely by self-interest, where self-interest is described by a utility function that contains two arguments: wealth and leisure. Individuals are presumed to have preferences for increases in wealth and increases in leisure. Thus, incentives increase an individual's desire to increase performance and concomitant pay. In turn, this desire motivates individuals to exert costly effort because increases in effort are presumed to directly lead to increases in expected performance.

Goal-setting theory (Locke & Latham, 1990) proposes that personal goals are the primary determinant of and immediate precursor to effort. In other words, personal goals are the stimulant of the incentive induced effort increases described above. In particular, research indicates that specific and challenging personal goals lead to greater effort than goals that are vague or easy or no goals at all. Challenging goals lead to greater effort than easy goals simply because people must exert more effort to attain the goal. While goal-setting theory allows for expectancies to affect personal goals, evidence shows that assigned goals have a much larger effect on personal goals than do expectancies. Consequently, goal-setting theory provides a description of the effect of incentives on effort that goes beyond their effects on expectancies and outcomes.

2.8 Employee 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. 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.

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.

2.9 Employee Performance

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.

According to Armstrong (2009), employee performance refers to the outcome, accomplishment of work as well as the results achieved, which is linked to the strategic goals of the organization, customer satisfaction and economic contributions. Armstrong continues to indicate that performance has to be managed by taking systematic action to improve organizational, team and individual performance; where individual performance management process is associated with both financial and non-financial incentives. The author concludes that Organizations are obliged to meet the needs of their stakeholders, in this case employees, by rewarding their employees equitably according to their contribution.

Measuring performance is of great importance to an incentive plan because it communicates the importance of established organizational goals. "What gets measured and rewarded gets attention" (Bohlander et al, 2001). In discipline of human resource management, different writers suggest the following indicators for measuring employee performance and they include: quality that can be measured by percentage of work output that must be rework or is rejected; Customer satisfaction that can be measure by the number of loyal customers and customer feedback. Also, timeliness, measured in terms of how fast work is performed by the employee when given a certain task; absenteeism/tardiness/early out observed when employees absent themselves from the work; and achievement of objectives measured when an employee has surpassed his/her set targets, he/she is then considered to have performed well to achieve objectives (Hakala, 2008; Armstrong, 2009).

The management of individual performance within organizations has traditionally centered on assessing performance and allocating reward, with effective performance seen as the result of the interaction between individual ability and motivation. It is increasingly being

recognized that planning and an enabling environment have a critical effect on individual performance, with performance goals and standards, appropriate resources, guidance and support from the managers all being central (Torrington, Hall & Stephen, 2008).

Individual employee is motivated by different incentives or benefits and it is important to know how they are motivated and what can satisfy them in order to encourage them to have right attitudes to work which will invariably enhance employee performance and organizational productivity. Intrinsic motivators are critical in meeting a person's needs, because they describe a pattern of how an individual may behave (Marwan, 2012)

Most important of all is the question of setting standards and monitoring individual performance. Within a sales environment it is relatively easy to track sales performance, but with the increasing emphasis on quality and consumer accountability, what quality measures could the manager introduce for staff to provide the correct cocktail of checks and balances? What about staff who apparently have no output? Once defined, the manager needs to set up systems to monitor progress. Sometimes the cost of monitoring may outweigh the financial benefits of higher performance, so how can the manager refine the scheme to deliver a balanced result and a bottom-line, incremental profit. (Fisher, JohnG., 2000).

Davis (1995) observes that performance management is a joint process that involves both the management and the employee who identify common goals which correlate to the higher goals of the institution. Davis further states that when employees are effectively rewarded, 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 the organizational culture and values are developed.

2.10 Empirical Review Related to the Study.

A number of studies were conducted to improve understanding of incentive system and the extent to which its relation on commitment, motivation and performance efficiency.

Miller and Whitford (2006) argued that the role of incentives has expanded considerably in view of the fact that it has been studied rigorously in principal agency theory. There is a strong relationship between management incentive and risk-taking which would subsequently lead to better firm performance. The role of incentives on behavior has been well documented

in the literatures. Incentives come in the form of financial rewards or other types of incentive-based remuneration such as stock option, share ownership, rewards, and bonuses. Employees' performance is substantially better under incentive plans which are substantiated by supportive innovative work practices.

Palmer (2012) defines incentives as the external temptations and encouraging factors that lead the individual to work harder; they are given due to the individual's excellent performance since he will work harder and produce more effectively when he feels satisfied in the institution. In addition to this, incentives can also be defined as the consideration of the excellent performance, assuming that the salary is enough to make the worker appreciate the value of the job that also satisfies his basic needs in life (Palmer, 2012).

Boela (2005) states that, incentives are offered in order to focus the employee's attention to the business objectives of the employer, and add that they are normally used to stimulate performance and particularly to increase sales and control costs.

George (2002) says that incentives work best alongside a good pay scheme, good working conditions and other good management practices, such as performance management, appraisals and appropriate communication and training programmes.

According to study financial incentives improved performance over 30 per cent compared with those who did not get incentives. Also other researchers have conducted similar empirical studies and found that performance increase in groups with financial bonus systems whereas in control groups' performance usually stays at the same level (Petty, Singleton & Connell (1992), Furthermore Locke et al. (1980), compared individual pay incentives, job enrichment and employee participation and found that financial rewards are most efficient.

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 business organizations. Pertaining to fairness as Holtmann (2005) mentioned that 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.

According to Milkovich & Newman (2005), bonus pay is a financial 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. 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.

In most cases, staff incentive schemes are employed to enhance productivity. To analyze the present staff productivity and thus to appraise the potential for improvement, we could compare our staff in terms of productivity (e.g. in the number of transactions of counter sales staff or in the number of stock spare parts of parts sales supervisor, or in the capacity of branch managers to develop their branch and staff). If there were high disparities, which can at least partly be explained by disparities in staff motivation, we could further ask how staff incentives would contribute to a higher overall performance of staff (Carolina, 2010).

Monetary incentives can be defined as the ways of monetary return offered for service rendered by employees (Kyani, Akhtar & Haroon, 2011; Sorauren, 2000). Examples of monetary incentive include pay rise, bonus, stock option and etc (Mathauer & Imhoff, 2006). It can also be further explained as the amount paid to employees, either in the form of lump sum or monthly payment which makes individuals perceive as an immediate feedback of their efforts contributed (Al-Nsour & Jordan, 2012).

There are also some studies which have ended up indifferent results. According to these studies, financial incentives have no effect or have negative effect on performance. In their review Camerer and Hogarth (1999), found that in studies researching financial incentives the most common result was that financial incentives have no effect on mean performance. Pfeffer's example also states against motivating effect of money. According to Pfeffer (1998), Southwest Airlines have never used financial rewards in order to improve performance and they are number one in productivity in the industry in which financial incentives are commonly used. Moreover fixed pay generates more effort than financial incentives paid based on employees' performance.

Dan Ariely (2006) stated that employees are paid as per their performance in various types of jobs, which is usually seen as an enhancing factor for productivity of an employee in comparison to the employees who are receiving non contingent pays. However,

psychological research suggests that excessive rewards can also result in a decline of performance. Research has been conducted as a set of experiments in the U.S. and in India to test whether very high monetary rewards can decrease performance. In this research the subjects worked on were different tasks and received performance-contingent payments that varied in amount from small to very large relative to their typical levels of pay. With some important exceptions, very high reward levels had a detrimental effect on performance. These results challenge the assumption that increases in motivation would necessarily lead to improvements in performance.

Jeffrey and Shaffer (2007), state that non-financial tangible incentives are effective because they are very visible. Because of visibility, the symbolic value of non-financial tangible incentives is higher than other incentives. Another reason for the effectiveness of non-financial tangible incentives can be that these incentives are usually distributed right after performance. Instead in financial incentives' case it can take months before incentives are distributed to employees. In this case reward-compensation relation is not so tight than in situation where reward is given right after performance. This can have effect on motivation and performance. Jeffrey and Shaffer (2007), also state that financial incentives are easily perceived as part of a basic pay. In this case financial incentives can lose their motivating impact. Instead non-financial tangible incentives are really noted and employees perceived them as extra reward. Because of that in some cases non-financial tangible incentives can be more effective than financial incentives. One problem in non-financial tangible incentives is that people like different things (Jeffrey & Shaffer 2007). One can be motivated through football tickets whereas the other can find a holiday trip more attractive. It is challenging for manager to decide which would be appropriate incentive in different situations. Another problem is that at lower income level non-financial tangible incentives can be perceived worthless because of the need for money (Jeffrey & Shaffer 2007).

According to Kube et al. (2008), credited more output in non-financial gift as compared to monetary gifts. Non-financial gifts contribute a great deal to employee satisfaction and this satisfaction shows long-term results. Kube et al. (2008) also carries the social exchange phenomenon. In his study, results show the higher impact of non-financial incentives on social exchange theory compared to monetary rewards. In another study Kube et al. (2006) describe that financial rewards are beneficial in short-term period and ineffective for long-term period. He also states that non-financial rewards have a significant and consistent effect on their satisfaction.

In accordance with 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 institutions 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.

Non-monetary incentives are non-cash benefits given by company to employees to retain, reward and motivate them for their excellent job performance (Woodruffe, 2006). Non-monetary incentives are deemed more valuable than monetary incentives as it shows respect and appreciation on employees' accomplishment (Gale, 2002). In the research of Nelson (2001) which is conducted in United States showed that there is a strong bond of relationship between non-monetary incentives and employees' job engagement.

According to Houston (2000). Non-financial incentives come in many forms such as gifts, rewards, travel. Some are more tangible than others since they are visible and/or can be compared to financial benefits. Less tangible incentives relate for instance to work flexibility, independence of working, recognition of one's work, the possibility of advancement. The value of non-financial material incentives seems to be perceived as a function of psychological processes

Gomes et al (2003) said that Incentive systems are an important part of organizational motivation and are central to helping diagnosticians understand the forces that drive the organization. Organizational incentives refer to both the reason for staff to join an organization, and the way an organization rewards and punishes its staff. Incentive systems can encourage or discourage employee and work group behavior. Organizations must continually seek ways to keep their employees and work groups engaged in their work, motivated, efficient and productive. An organization's success can depend on its ability to create the conditions and systems (formal and informal) that entice the best people to work there. Also, a good incentive system encourages employees to be productive and creative, fosters loyalty among those who are most productive, and stimulates innovation.

Most researchers have concentrated on the cause and effect relationship of the incentives schemes and workplace productivity or organization performance, few writers have bothered to look behind the scenes at the internal and external factors that infuse or diffuse life from the incentives schemes. Some findings that could be approximated to explain the environments surrounding applied incentives are those of Towers (1990) and Bernadin and Russel (1993). Towers concluded that factors necessary for success of team incentives are senior management commitment, employee support/involvement, emphasis on communications, related HR activities, e.g. training, performance measurement at levels below corporate, shorter payout periods, operational or blended rather than wholly financial measures. Bernadin and Russel (1993) also listed factors such as employees' involvement and value of money, realistic productivity goals and fair performance measurement as necessary for successful financial incentives administration.

According to Perry (2006), financial incentives improve task performance significantly, but effectiveness dependent on organizational condition. Meta-analysis of 72 field studies indicated that an organizational behavior using monetary incentives improved task performance by 23% whereas social recognition did so by 17% and feedback by 10%. However, after combining all the three motivational reinforces, performance improved by 45%. This is a stronger effect on performance than when each was applied separately. Feedback combined with money and social recognition produced the strongest effect on performance.

To summarize, the key practical messages of the effect of incentive schemes on employee's performance as Armstrong (2009) described that, financial incentives provided by employers in the form of pay will help to attract and retain employees and for limited periods, may increase effort and minimize dissatisfaction. Non-financial incentives related to responsibility, achievement and the work itself may have a longer-term and deeper impact on motivation. Incentive schemes should therefore include a mix of financial and non-financial rewards.

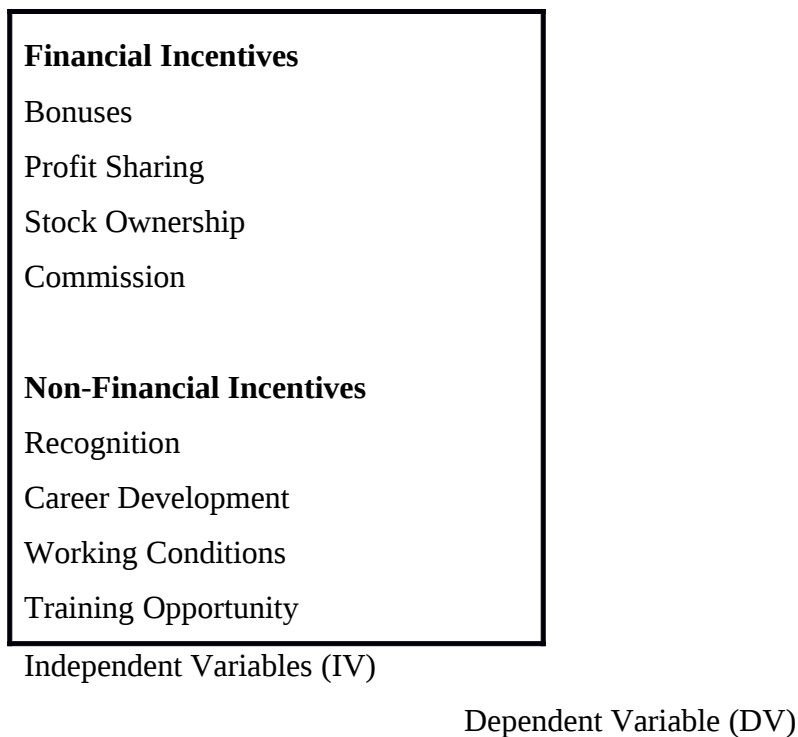
2.11 Conceptual Framework

Incentives are designed to encourage performance of individuals. Regardless of the incentive forms, incentives play an active role in pushing forward individual's capacity and moving abilities, motivating them to develop their skills and balance between organization requirements and the individuals' needs which enhance the organization performance

efficiently and effectively. According to (Armstrong & Taylor, 2014) financial incentive works when a link between effort and reward is clear and the value of the reward is worth the effort.

This study has investigated all the elements of incentive schemes. The paper has also find out organizations use incentive schemes as a number one tool to attract and retain their qualified and key employees and also facilitates them to improve their performance. The conceptual framework of the study specifies the nature of the study, which is depicted in the diagrammatic form of Figure 2.1. According to the model, dependent variable is employee performance and the independent variables are incentive schemes (financial and non-financial).

Fig 2.1 conceptual framework of the study.



Employee Performance

Source: The study adopted the conceptual framework (Armstrong & Taylor, 2014).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter presents the design and methodology used in the study. It includes the research approach, design, target population, sampling strategy, the data collection procedures, the source of data, the instruments used for gathering data, data analysis, issues pertaining to

validity and reliability, and ethics and the statistical techniques were used to analyze the summarized data.

3.2 Research Approach

The study conducted as a quantitative study approach to research in order to depict the effect of incentive schemes on employee performance. According to Burns and Grove (1993), 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. Besides, it also helps in examining and describing the interactions among those variables. Therefore, employees of Nyala Motors S.C. have been chosen as the statistical population. The choice of this approach is determined by the fact that this study has attempted to answer questions about the relationship between incentive schemes and employee productivity.

3.3 Research Design

The purpose of the study is to assess and examine the relationship between the incentive schemes and employee performance. The study is a survey in which data were collected from the 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 used a quantitative methods.

The research conducted two research designs these are descriptive and explanatory research designs. A descriptive research design was applied to describe the data and characteristics of the samples in order to understand and systematically describe the incentive schemes of the case organization and also to identify the most influential variables that affect employee's performance. On the other hand, explanatory research also conducted to get an understanding and identification of the study variables. 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.

3.4 Target Population

The target population is defined as a collection of elements or objects that possess the information sought by the researcher (Malhotra & Birks, 2006). The study population was comprised of 145 representatives of Nyala Motors S.C. was chosen as a unit of analysis for this study. The specific company was selected because it is one of the leader automotive dealer in the country. Target population are employees of the company located in Addis

Ababa (head office) and the branch offices (Bahir-Dar, Dire-Dawa, Hawassa, Jimma and Mekele). All complete lists of employees' relevant data obtained from head office, Human Resource Department of the company. As at December 31, 2017, a total of 254 employees were engaged within the company in different job position.

3.5 Sample Technique and Sample Size

Sampling technique is used to represent the characteristic of the targeted population so that the researcher can draw a general conclusion on the entire population. Stratified sampling technique was used in this research and it is one of the probability sampling techniques. The used of probability sampling technique is because there is a defined sampling frame for this research. Therefore, the probability of inclusion for every member of the population is determinable. As it is stated on the scope of the study, clerical, non-clerical, junior and apprentices were not included in the study. Therefore, the researcher focused only on employees who are at the technician level and above. These employees were divided into five groups based on the position they hold as Managerial, Supervisory, Sales, Technicians and Professional Support Staff. Depending on this fact, proportional stratified sampling technique was applied for the study. The researcher believes that, it allows in obtaining a great degree of representativeness from each strata and the population were adequately represented in the sample from the strata. According to (Yamane, (1967) to determine the number of elements to be selected from each stratum the researcher can use a simplified formula for calculation of sample size, suggested that for a 95% confidence level and $e=0.05$, with a population of 145 the size of the sample representatives, 107 respondents were targeted for this research:-

$$n$$

Where;

N=Number of population

n= sample

e=standard error at 95% confidence level

Based on this, the number of sample has been taken from each stratum of the five strata are as follows.

Table 3.1: Target Population and Sample.

Position	Number of Employees	Percentage	Targeted Sample
Managerial	18	12%	13
Supervisor/Foreman	26	18%	19
Sales Staff	35	24 %	26
Technincaian	42	30%	31
Professional support staff	24	16%	18
TOTAL	145	100%	107

Source for number of employees: (HR Deparemtnet Report, December, 2017).

3.6 Data Collection Method and Procedure

The study were incorporated the use of various methods in the process of data collection in a bid to come up with sound, concrete and credible research findings. The researcher therefore amalgamated the use of structured questionnaire and documentary analysis in the process of collecting both primary and secondary data.

3.6.1 Primary Data

Primary data was used for better understanding of the issue under the study and collected from respondents at Nyala Motors S.C.(head office and branch offices), who were assume to give firsthand information on the subject under study. The self-administered survey questionnaire was used to collect the data from the respondents. Before beginning actual data collection, the researcher has briefed the management team and other concerned staff with regard to the purpose of the research.

3.6.2 Secondary Data

Secondary data was gathered from sources like; annual reports, journal articles, internet, magazines, newspapers and books related to the subject of the study and these were consulted at length to extract the information required to support the findings from the study respondents.

3.7 Variables of the Study.

In this study, variables were examined these are the general incentive schemes at the case of the company. Incentive types which may affect employee's performance level that was classified as independent variables (IV) financial and non-financial incentives and employee performance as dependent variable (DV).

3.8 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. Hard copies of the questionnaires were passed personally to the target respondents while soft copies of the questionnaires were sent through e-mails to the target respondents in the effort to obtain their responses. The designed instrumental questions included two main parts. Part one is aimed to collect demographic characteristic and profile information of the respondents and part two is closed ended aimed to collect independent and dependent variables consisted of 40 (forty) questions which were intended to measure the perceptions, the effect and relationship between incentives and employee performance, using five point Likert scale anchored by strongly agree to 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. The scale of measurement used for the study were interval, nominal and ordinal. An interval scale of measurement was based on ordered interval that are of equal length and zero value is arbitrary, nominal scale of measurement was applied for categorical data and ordinal scale of measurement was used based on categorical data that involve on rankings and ordered values. All question items were attached as annex 1.

3.9 Validity and Reliability Test

3.9.1 Validity Test

Validity refers to 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. Thus effect of incentive schemes measurements are adopted from various scholar works. Items in the questionnaire are prepared using a five point-Likert scale except the demographic items and an additional comments in related to the study. Maximum effort was exerted to create logical link between the items in the questionnaire and the objective of the study. The researcher directly contacted with the staff of the company to collect primary data and he also had a chance to assess all appropriate sources of information makes the data obtained valid.

3.9.2 Reliability Test

Reliability test was conducted to ascertain the reliability level of the research. The reliability of a measure indicates the extent to which the measure is without bias and offer consistent measurement across time (Sekaran, 2003). Cronbach's alpha is a reliability coefficient that indicated how well the items are positively correlated to another. The closer Cronbach's alpha is to 1, the higher internal consistency reliability (Sekaran, 2003).

3.10 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. Data collected from the respondents 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.

Data collected from the questionnaires were carefully analyzed, summarized and interpreted by using both descriptive and inferential statistics. The descriptive statistics include frequencies, valid percentages, means and standard deviation. These were used to present the demographic characteristics of the respondents and incentive schemes practices part of the questionnaires in a summarized manner. Inferential statistics was computed and used to come up with conclusion on how representative was the sample to tale about the relations between financial and non-financial incentives (independent variables) on employee performance (dependent variable) were made by using Pearson product- Moment Correlation Coefficient and Multiple regression analysis for the other two objectives that is 'determining the relationship between financial and non-financial incentives with employee performance and the effect of incentive schemes on employee performance'. Hypothesis testing were

conducted at 95% confidence intervals and eventually, findings, conclusions and recommendations were drawn from the entire population.

3.10 Ethical Consideration.

The researcher used data from employees which are collected through self-administered questionnaires; permission is obtained from employees. To maintain confidentiality, the respondents were informed that the information they provide are confidential and used only for academic purposes. The respondents were informed not to write their names on the questionnaire. The data that were collected is kept confidential and the researcher tried to work on the paper with standard professional ethics.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRATION

This chapter presents the analysis of data from the survey. Once the raw data was obtained it was coded and entered into the computer program. In addition to this, background information of respondents were presented in different format.

The Statistical Package for Social Sciences (SPSS) version 20 was used to analyze the data. Descriptive statistics were used to summarize, organize and simplify the findings in a systematic way. The result are presented in figures, percentages and tables and the summary statistics such as means, standard deviations are computed for each incentive schemes dimensions and employee performance in this study. This is followed by presentation of inferential statistics based on each hypothesis formulated for the study.

4.1 Response Rate of Respondents

Data were collected from employees of Nyala Motors S.C. Indeed, 107 questionnaires were distributed to the targeted population across the head office and its five branch offices (Bahir-Dar, Dire-Dawa, Hawassa, Jimma and Mekele), out of which 96 questionnaires were completed and returned successfully which is representing 89.7% response rate.

Table 4.1: Questionnaire Distribution and Response Rate.

Position	Questionnaire Distributed	Questionnaire Completed	Response Rate %
Managerial	13	13	100
Supervisor/Foreman	19	17	89
Sales Staff	26	24	92
Technincain	31	26	84
Professional support staff	18	16	89
TOTAL	107	96	89.7

Source: Own Survey, 2018

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. According to Sekaran (2003), if alpha coefficient is below 0.6, the reliability is weak. Alpha coefficient which ranges from 0.6 to 0.8 is considered to be moderately strong. If the alpha coefficient is above 0.8, they are considered to be very strong Cronbach's alpha values are dependent on the number of items in the scale.

Table 4.2: Reliability Statistics

Sr. No.	Dimension	Cronbach's Alpha	N of Items
1	Financial Incentive Schemes	.848	16
2	Non-Financial Incentive Schemes	.895	16
3	Employee Performance	.863	8
4	Reliability Statistics of Total Scale	.933	40

Source: Own Survey using SPSS

As indicated in table 4.2 above scale reliability Cronbach's Alpha coefficients for financial incentives is .848, for non-financial incentive is .895 and for employee performance is .863 and merged incentives and performance questionnaires .933 respectively. Thus the study also demonstrates very strong internal consistency and the total Cronbach's Alpha coefficient is .933. Therefore, this study demonstrates very strong reliability.

4.3 Demographic Characteristics of Respondents

This section explains the demographic profile of the surveyed respondents. It includes gender, age, marital status, educational qualification, and years of service, current position and monthly income. The frequency and the percentage of the respondents profile are summarized in table 4.3 below.

Table: 4.3: Demographic Characteristics of Respondents

No.	Variables	Frequency	Percentage
1	Gender		
	Male	74	77.1
	Female	22	22.9
	Total	96	100
2	Age		
	Below 25	4	4.2
	25-35	45	46.9
	36 – 45	34	35.4
	46 – 55	12	12.5
	Above 55	1	1.0
	Total	96	100
3	Marital Status		
	Single	35	36.5
	Married	59	61.5
	Divorced	1	1.0
	Other	1	1.0
	Total	96	100
4	Educational Qualification		
	Certificate	2	2.1
	Diploma	22	22.9
	First Degree	61	63.5
	Master Degree	10	10.4
	Other	1	1.0
	Total	96	100
5	Years of Service		
	Below 5	40	41.7
	5 – 10	39	40.6
	11- 15	12	12.5
	16 - 20	5	5.2
	Total	96	100
6	Current Position		
	Managerial	13	13.5
	Supervisory	17	17.7
	Sales staff	24	25.0
	Technician	26	27.1
	Professional Support staff	16	16.7
	Total	96	100
7	Monthly Income		
	Below 5,000.00	13	13.5
	5,000.00 -10,000.00	34	35.4
	10,001.00 – 20,000.00	37	38.5
	20,001.00 – 30,000.00	5	5.2
	30,001.00 – 40,000.00	4	4.2
	Above 40,000.00	3	3.1
	Total	96	100

Source: Own Survey using SPSS

Based on personal data obtained from the respondents result on table 4.3 above shows that, 77.1% of them were male whereas the remaining 22.9% were female. This indicates that there is male dominance within the company.

Age of the respondents shows that majority of respondents 46.9% were aged 25 to 35, this indicates that the company employs young generation (millennials). Millennials born 1981 to 1999, they were raised at the most child-centric time in the history. Due to the great deal of attention and high expectations from parents, they are confident and may appear cocky. Also known as Generation Y, they are the largest generation in the worldwide workforce, and are still growing (Birkman, 2016). Therefore, the company incentive scheme design should accommodate its workforce age composition. Since, young generation are more volatile for turnover for financial and other differentials.

The respondents were asked that to state the marital status; which showed 61.5% of them were married employees and the remaining 36.5% were not. Here it's easily understood that the majority of the respondents are married employees. This implies that most of them have additional responsibilities.

Academic qualification of the respondent's shows that the highest percentage 63.5% of employees represent category of First degree, the next larger group Diploma holders which is 22.9% of the respondents and the next level a Master degree 10.4% and the minimal percentage was certificate which is 2.1% and other level 1.0% respectively. This implies that most of the employees of the company are first degree holders that means most of them are skilled and professionals.

Duration of services was another personal factor, the highest percentages of 41.7% represents employees below 5 years, the next level is 40.6% serving the company in between 5 to 10 years and rest 12.5% serving with the company more than 10 years of services and the minimum 5.2% serving the company in between 16-20 years. This implies that most of Nyala Motors S.C. staff are new and serving less than 10 years. They are more familiar with the activities of the company and can provide useful insight in the maintenance of good performance.

Job category of the respondents based on the result Technician 27.1%, Sales staff 25%, Supervisor/Foreman 17.7%, Professional Support staff 16.7% and Management 13.5%

respectively. This implies that most of the respondents are Technicians and Sales staff, therefore, the company may consider them as a core staff for the sales and servicebusiness.

The respondents' monthly income shows that the majority of the respondents are 38.5 % in between 10,001.00 to 20,000.00, the next level is 35.4% which is 5001.00-10,000.00, the next level is 13.5% below 5,000.00 and the rest are in different categories. This shows that the company pay system level on the salary range of 10,001.00–20,000.00 and it gives some highlights to see the open market salary scale specifically within the automotive industry and other companies too.

4.4 Descriptive Analysis

The second part of the research questions seeks to understand what the incentive schemes of Nyala Motors S.C. looks like, what type of incentive scheme techniques are applicable to employees which has been analyzed and presented on following tables and presented. 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 3.80 is considered as high as illustrated in table 4.4 below.

Table 4.4: Comparison Bases of Mean Score

Sr.No.	Mean Score	Description
1	< 3.39	Low
2	3.40 – 3.79	Moderate
3	> 3.80	High

Source: Zaidatol & Bagheri (2009)

4.4.1 Mean and Standard Deviation

Mean and standard deviation of all the questionnaire items were also computed in AnnexC. The mean values of most items ranges from 2.93 to 4.49. This can be concluded that these items are more towards agreed and strongly agreed. For standard deviation, most of the items have a standard deviation of less than 1 which means that there is little dispersion of data.

Table 4.5: Aggregate of Financial Incentives Mean and Standard Deviation.

Financial Incentives	Mean	Std. Deviation
Annual bonus based on the company financial targets and achievements.	4.46	.614
Profit sharing scheme helps a strong sense of belongingness to the company.	4.22	.861

Profit sharing scheme improves company performance by attracting qualified staff.	4.09	.895
Profit sharing scheme has a significant role on the retention of key staff.	4.08	.890
The existing company bonus pay system is inspiring me to a higher performance.	4.03	.934
I am ready to increase my work efforts in order to gain the share ownership.	4.01	1.091
A competitive commission for efficient service delivery and productivity.	4.01	1.071
Share ownership is the most important factor in employee performance.	4.00	1.036
Commission can encourage me to improve the sales performance.	3.92	1.149
Commission can contribute to more excellence and healthy competition within the company.	3.92	1.111
Commission usually motivates me to perform better in the company.	3.84	1.069
The share ownership in place favors top management than employees.	3.83	.970
Bonuses are paid fairly for extra work, efficiency and achievements.	3.82	.821
The company usually provides bonuses for all its employees' according to the job grade.	3.76	1.203
Employees often endeavor to meet the set targets to be entitled a stock ownership.	3.57	.971
The management of the company is fair in the implementation of profit sharing scheme.	3.41	1.011
Total	3.94	0.981

Source: Own Survey, 2018

Table 4.6: Summary of Financial Incentives

Financial Items	Mean	Std. Deviation
Bonus	4.02	.590
Profit Sharing	3.95	.667
Stock Ownership	3.85	.760
Commission	3.92	.934
Total	3.94	.738

Source: Own Survey, 2018

According to rank a general list of Financial Incentives consisting of the ones offered by the company and some are not offered, these results are presented in table 4.5 and 4.6 above.

As indicated in the above table the mean values of annual bonus mean 4.02 and profit sharing mean 3.95 are slightly above the average i.e. 3.94 this means the incentive schemes of the company with the mentioned variable is satisfactory. But the mean value of employees on commission with a mean 3.92 and stock ownership mean 3.85 are below average this indicate that the company incentive scheme with this regard is not satisfactory. When the aggregate mean result is 3.94 (high) seen the financial incentive schemes of the company is highly satisfactory. The study is agreed with the findings of (Stajkovic and Luthans, 2003),that, money has been shown to attract, motivate, and retain employees as well as to serve as a reinforcement of employee performance.

This indicates that the employees attach different weights to various financial incentives and also show high rating for annual bonus based on the company financial targets and achievements and profit sharing scheme helps a strong sense of belongingness to the company and low rating for commission and stock ownership, that some incentives are more powerful than others in motivating employee's performance.

Table 4.7: Aggregate of Non-Financial Incentives - Mean and Standard Deviation.

Non-Financial Incentives	Mean	Std. Deviation
A positive working conditions is important for me to perform well on my job.	4.49	.858
The work environment can elicit greater commitment in me to perform my best.	4.03	.827
Management recognizing employees whose efforts make a difference.	3.97	.989
Feeling a spirit of teamwork and cooperation among co-employees.	3.96	.905
Organizational policies and procedures can promote employee ownership.	3.86	.958
The company grants a tangible gifts/trophy, I am more motivated to perform better.	3.84	.977
The contents of the training program makes the company's employees to be more productive.	3.76	1.044
Incentive travel to boost the morale of individual or team for work is well done.	3.66	1.186
The company is committed to the training and development of its employee.	3.50	1.179
The company provides me with skills and knowledge that will benefit my future career.	3.42	1.185
I have participated in the decision making of the company goals.	3.15	1.196
When an employee performs well consistently they are	3.11	1.213

promoted to next level		
Promotion purely depends on performance and fairly distributed within the company.	3.09	1.206
Employees are encouraged to participate in various seminars and workshops.	3.05	1.080
There are enough promotion possibilities to stimulate me to higher performance.	2.97	1.192
Employees are promoted when they earn academic qualifications or special training.	2.93	1.324
Total	3.55	1.082

Source: Own Survey, 2018

Table 4.8: Summary of Non- Financial Incentives

Non-Financial Items	Mean	Std. Deviation
Recognition	3.65	.805
Career Development (Promotion)	3.03	1.064
Working Conditions	4.09	.653
Training Opportunity	3.43	.894
Total	3.55	.853

Source: Own Survey, 2018

According to the above table 4.7 and 4.8 the company incentive schemes of training opportunity with mean 3.43 and promotion (career development) the mean value is 3.03 are not satisfactory because the mean results are below average mean 3.55. But all other non-financial incentives working conditions mean 4.09 and recognition mean 3.65 are satisfactory, since the mean result are above average mean, When the aggregate mean result is 3.55 (Moderate) seen the non-financial incentive schemes of the company is moderately satisfactory. In their study (Cameron and Pierce, 1997) concluded that praising people for their work leads to greater task interest and performance and that tangible reward also enhance motivation when they are offered to people for completing work or for attaining or exceeding specified performance standard.

This implies that the employees attach different weights to various non-financial incentives and also show high rating for working condition and recognition and low rating for the training and promotion (career development) as well.

Table 4.9: Aggregate of Employee Performance – Mean and Standard Deviation

Employee Performance	Mean	Std. Deviation
Employees' attitude and commitment have positive influence on company's overall performance.	4.40	.718
Employee performance helps both employee development and organizational improvement.	4.27	.968

Superior's regular feedback is key in the improvement of an individual's performance.	4.06	.927
The management leadership style has an effect on the level of performance inclination.	4.01	.827
The existing incentive scheme program has its own influence on company's overall targets and achievements.	3.99	.814
Employees are motivated to work collectively towards achieving common goals.	3.92	.937
Performance based incentive scheme encouraged me to exert more effort and improve my productivity.	3.91	.974
Employee adherence to the expected standard is a key indicator in measuring the performance.	3.91	.930
Total	4.06	.887

Source: Own Survey, 2018

As can be seen from the table, the research questionnaire explore how do employees perceive the incentive schemes on employee performance, employee responses to the above questions. Based on the response of the respondent for those dependent variable of employee performance questionnaires is slightly above and below average. This implies that the employees of the company are highly (substantially) and moderately perceived the employee performance. When the aggregate mean result is 4.06 (high) seen the effect of incentive schemes on employee performance of the company seems very satisfactory. This is consistent with the findings of Kohn, (1993), Powell, (1998) who stated that not all writers agree that incentive plans or programs will always lead to positive outcome. This implies that different incentive schemes indeed work in boosting employee performance and their presence or absence can make a significance difference in organizational performance.

4.5 Normality Test

The underlying assumption in Pearson Correlation and Multiple Linear Regression is the data tested must be normally distributed. Therefore, normality test is conducted to ascertain whether the data are normally distributed as to fulfill the normality assumptions before proceeding to further tests. Assumption of normality will be fulfilled when the p-value is more than 0.05 (Razali & Yap, 2011). Table 4.10 below indicated that the p-value is greater than 0.05, which implies that there was no evidence for the presence of abnormality in the data.

Table 4.10: Test of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Employee Performance	.137	96	.000	.900	96	.000
Financial Incentives	.088	96	.064	.969	96	.021
Non-Financial Incentives	.080	96	.142	.974	96	.056

a. Lilliefors Significance Correction

4.6 Multicollinearity Test

Multicollinearity will occur if some or all of the independent variables are highly correlated with one another. It shows the regression model has difficulty in explaining which independent variables are affecting the dependent variable. As shown in the table 4.11, there is no multicollinearity problem among all the IVs in this study as the highest correlation between IVs is less than 0.9 (Wheeler & Tiefelsdorf, 2005), which is 0.733 (correlation between financial incentives and employee performance).

Table 4.11: Correlation

		Financial Incentives	Non-Financial Incentives	Employee Performance
Financial Incentives	Pearson Correlation	1	.571**	.733**
	Sig. (2-tailed)		.000	.000
	N	96	96	96
Non-Financial Incentives	Pearson Correlation	.571**	1	.563**
	Sig. (2-tailed)	.000		.000
	N	96	96	96
Employee Performance	Pearson Correlation	.733**	.563**	1
	Sig. (2-tailed)	.000	.000	
	N	96	96	96

In addition, table 4.12 below multicollinearity problem can also be assessed based on the value of tolerance and VIF for independent variables. Optimal value for tolerance and VIF should be above 0.10 and below 10 respectively in order to avoid multicollinearity problem as suggested by Hair, Babin, Money & Samuel (2003). Hence, the result below indicated that there is no multicollinearity problem in this study.

Table 4.12: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.556	.320		1.739	.085		

Financial Incentives	.709	.096	.610	7.348	.000	.674	1.485
Non-Financial Incentives	.200	.078	.214	2.578	.012	.674	1.485

a. Dependent Variable: Employee Performance

4.7 Inferential Analysis

4.7.1 Pearson Correlation Analysis

Pearson's correlation was used to measure the strength of linear relationship between two variables. The number representing the Pearson correlation is referred to as a correlation coefficient. It ranges from -1.00 to +1.00, with zero representing absolutely no association between the two variables. Correlation coefficient can be either positive or negative, depending upon the direction of the relationship between the variable (Hair et. al, 2003). Table 4.13 below shows the meanings of the different range of correlation coefficient.

Table 4.13: Range of Correlation Coefficient

Coefficient Range	Strength
+0.91 to +1.0	Very Strong
+0.71 to +0.90	High
+0.41 to +0.70	Moderate
+0.21 to +0.40	Small but definite relationship
0 to +0.20	Slight, almost negligible

Source: Hair et. al, (2003)

4.7.1.1 Correlation Coefficient Analysis

Correlation analysis was used to show the strength of the association or the relationship between the variables involved. Inter-correlations coefficients (r) were calculated by using the Pearson's Product Moment.

Table 4.14: Correlation Coefficient between Financial Incentives and Employee Performance

		Financial Incentives	Employee Performance
Financial Incentives	Pearson Correlation	1	.733**
	Sig. (2-tailed)		.000
	N	96	96
Employee Performance	Pearson Correlation	.733**	1
	Sig. (2-tailed)	.000	

N	96	96
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** . Correlation is significant at the 0.01 level (2-tailed).

- Table 4.14 show that the correlation coefficient between financialincentives and employee performance is .733 which is high associated with each other at one percent level of significance (r 0.733, P < 0.01). It can be concluded that employee that awarded with financial incentives will have higher engagement to the organization performance.
- There is high (substantial) and statistically significant relationship between financial incentive schemes and employee performance.

Table 4.15:Correlation Coefficient between Non-Financial Incentives and Employee Performance

		Employee Performance	Non-Financial Incentives
Employee Performance	Pearson Correlation	1	.563**
	Sig. (2-tailed)		.000
	N	96	96
Non-Financial Incentives	Pearson Correlation	.563**	1
	Sig. (2-tailed)	.000	
	N	96	96

** . Correlation is significant at the 0.01 level (2-tailed).

- The results show that the correlation coefficient between non-financial incentives and employee performance is .563 which is moderate associated with each other at one percent level of significance (r 0.563, P < 0.01). It can be concluded that employee that awarded with non-financial incentives will contribute higher engagement to the organization performance.
- There is moderate and statistically significant relationship between non-financial incentive schemes and employee performance.

4.7.2 Multiple Liner Regression

Multiple linear regression analysis is a method which uses more than one IV to explain the variance in a DV (Ghani & Ahmad, 2011).The study aims to investigate the relationship

between the independent variable (financial and non-financial incentive schemes) with the dependent variable (employee performance) in Nyala Motors S.C.

4.7.2.1 Regression Analysis

In order to determine the extent to which the explanatory variables explain the variance in the explained variable, multiple regression analysis was performed. Table 4.16 below shows that regress financial and non-financial incentive schemes as independent variable on employee performance as dependent variable.

Table 4.16: Model Summary (Multiple Liner Regression)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.753 ^a	.568	.558	.42265

a. Predictors: (Constant), Non-Financial Incentives, Financial Incentives

The model summary table 4.16 includes the independent variables (financial and non-financial incentive schemes) and dependent variable (employee performance). As indicated in the above model summary and below ANOVA table, the liner combination of the independent variables were significantly related to the dependent variable,

Table 4.17: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.822	2	10.911	61.079	.000 ^b
	Residual	16.613	93	.179		
	Total	38.435	95			

a. Dependent Variable: Employee Performance

b. Predictors: (Constant), Non-Financial Incentives, Financial Incentives

Based on the ANOVA table 4.17, the F-value of 61.079 is considered very enough. While the significance value of 0.000 is less than 0.05. Since it is less than 0.05, it can conclude that the

Independent variables (financial and non-financial incentives) were significantly explain the variance in employee performance.

Table 4.18: Coefficients (Multiple Liner Regression)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	.556	.320		1.739	.085
	Financial Incentives	.709	.096	.610	7.348	.000
	Non-Financial Incentives	.200	.078	.214	2.578	.012

a. Dependent Variable: Employee Performance

According to the coefficients table 4.18, financial incentives ($p < 0.01$), and non-financial incentives ($p < 0.05$) are all significantly affecting employee performance in the company. This is because the significance values of all two IVs are less than alpha value 0.05. In other words, the result showed that financial incentives as well as non-financial incentives are strongly related with employee performance in the company.

In addition, Standardized Coefficients Beta value is used to test the effectiveness of each IV in affecting the dependent variable. In this research, it is found that financial incentives ($\beta = 0.709$) is the most effective factor in affecting employee performance among the two IVs. However, non-financial ($\beta = 0.200$) is found to be the least effective factor in affecting employee performance compare to financial incentives.

According to the Coefficients table, the regression equation is written as:

$$Y = a + b_1X_1 + b_2X_2$$

Where,

X_1 = Financial Incentives (IV)

X_2 = Non-Financial Incentives (IV)

Thus, the equation of the model employed in this research can be written as:-

$$\text{Employee Performance} = 0.556 + 0.709(\text{Financial}) + 0.200(\text{Non-Financial}).$$

The result of the regression model shown in table 4.16 indicates that the extent or percentage that the IVs can explain the variations in the DV. Therefore, $R = .753$, $F = 61.079$ ($P = 0.000$).

The R square of the model = .568 and Adjusted R square = .558 shows that approximately 57% of the total variation in the dependent variable (DV) i.e. employee performance is explained by the linear combination of the independent variables (IV) i.e. financial and non-financial incentive schemes. However, 43% (100% - 57%) of the variation in the DV is unexplained in this research. In other words, there are other additional variables that are important in explaining employee performance that have not been considered in this research. Both the R square and the adjusted R square values in this study are found to be sufficient enough to infer that the fitted regression line is very close to all of the data points taken together. For such data, R square greater than 20% is still large enough for reliable conclusions (Cameron Trivedi, 2009; Hsiao, 2007, cited in Nyamsogoro, 2010).

4.7.3 Hypothesis Test

Analysis of the research was done in light of research questions and hypothesis proposed in the plan of the paper. Accordingly, all the three hypothesis results presented as follows.

- ➔ Examining the relationship between incentive schemes and employee performance.

Hypothesis 1: There is a positive and significant relationship between financial incentives and employee performance.

Table 4.19: Model Summary (Financial)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.733 ^a	.537	.532	.43516

a. Predictors: (Constant), Financial Incentives

According to table 4.19, Since the correlation coefficient of financial incentives $r = 0.733$, $p < 0.01$ and the regression of $r = 0.733$ and r square 0.537 and adjusted r square 53% , which implies that high relationship between financial incentives and employee performance, Therefore, the hypothesis is accepted.

Hypothesis 2: There is a positive and significant relationship between non-financial incentives and employee performance.

Table 4.20: Model Summary (Non-Financial)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.563 ^a	.317	.310	.52854

a. Predictors: (Constant), Non-Financial Incentives

As presented in table 4.20 the analysis part, correlation coefficient of opportunity for non-financial incentives scheme $r = 0.563$, $p < 0.01$ and the regression of $r = 0.563$ and r square = 0.317 and adjusted r square 31% , which implies that moderate relationship between non-financial incentives and employee performance. Therefore, the hypothesis is accepted.

➔ Assessing employee's perception of incentives and its influence on employee performance.

Hypothesis 3: The perception of incentive schemes has a significant and positive influence on employee performance.

As it presented in table 4.13 above the correlation coefficient of financial and non-financial incentive schemes $r = 0.753$, $p < 0.01$ and the regression of $r = 0.753$ and r square = $.568$ and adjusted r square = 56% , which implies that high positive influence of incentive system on employee performance. Therefore, the hypothesis is accepted.

Based on the above research findings, the test result of the three formulated hypotheses were summarized as in the table 21 below.

Table 4.21: Summary of Tested Hypothesis

No.	Tested Hypothesis	Test Result
1	There is a positive and significant relationship between financial incentives and employee performance	Accepted
2	There is a positive and significant relationship between non-financial incentives and employee performance	Accepted
3	The perception of incentive schemes has a significant and positive influence on employee performance.	Accepted

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This is a concluding chapter. It provides the summary, conclusion and recommendations and including suggestions of further studies.

This chapter presents a summary of the major findings gathered from the analysis of the data. Conclusions have been drawn from the study and recommendations put forward that may help to deal with the challenge of the effect of incentive schemes on employee performance at Nyala Motors S.C

5.1 Summary of Findings

The main objectives were to assess the employee's perception towards the incentive schemes, to examine the relationship between incentive schemes and employee performance and

to determine the effect of incentive system on employee performance in NMSC. Generally, descriptive, correlation and multiple regressions analysis were performed in order to conduct the research analysis.

- According to table 4.3 the findings 22.9% and 77.1% from the total population of 145 respondents were female and male respectively. With regard to age distribution 46.9% and 35.4% were in the ages between 25-35 and 36-45 years respectively. Based on the findings on educational qualification 63.5% were first degree holder and the result show that on the job category 27.1% and 25% from the respondents were technician and sales staff respectively.
- As regards to descriptive statistics mean result, the average mean value of financial incentives is 3.94, non-financial incentives is 3.55 and employee performance is 4.06 this shows that employees in Nyala Motors S.C. highly and moderately motivated towards on employee performance. Boela (2005) states that, incentives are offered in order to focus the employee's attention to the business objectives of the employer.
- In this study it is observed that the absence of practice on commission and stock ownership and the variables are below average mean 3.94, has a significant influence on the sales and overall company performance.
- As a result showed and the literature in regards to opportunity for career development (promotion) and training and the variables are below average mean 3.55, has an impact on high performance employee.
- Results from person product moment correlation coefficient revealed that, there is high (substantial) and moderate and statistically significant relationship between financial and non-financial incentive schemes and employee performance. The model summary of multiple regression analysis it was 75.3% and also showed that the proportion of the variation in employee performance explained by the liner combination of financial and non-financial incentive schemes is 56.8% (from r^2 value) which is statistically significant at 99% confidence level as indicated from F-statistic.
- There is high relationship between financial incentives and employee performance as it was 73.3% positive and significant relationship and can make 53.7% variance. Al-Nsour and Jordan (2012) explained monetary incentive as the amount paid to

employees, either in lump sum or monthly payment which makes individuals perceive as an immediate feedback of their effort contributed. The reason behind for employees to have great emphasis on monetary incentives might be due to the impact that monetary incentive brings in terms of better living standard and stronger sense of security.

- There is moderate relationship between non-financial incentives and employee performance as it was 56.3% positive and significant relationship and can make 31.7% variance on employee performance. Jeffrey and Shaffer (2007), state that non-financial tangible incentives are effective because they are very visible. The reason for employees to prefer non-financial incentive might be due to the fact that it brings greater satisfaction psychologically.

Accordingly, results express that both financial and non-financial incentive schemes has a positive effect on employee performance. Organizations that provide effective incentives are more likely to have satisfactory job performance from employees. Incentive schemes do have significant correlation with employee performance motivation and productivity in organizations. (Ugwu Ude and M.A. Coker, 2012)

5.2 Conclusion

The purpose of the study to examine the effect of incentive schemes on employee performance and from the findings and the results it can be concluded that, incentives play a major role in enhancing performance in an organization. While goals and feedback clearly boosts performance, adding an incentive will enhance job interest and persistence. The results show that both financial and non-financial incentives are used and perceived in terms of importance, almost satisfactorily at NMSC. In relation to employee performance, results show that many employees in NMSC believe incentives have a positive effect on employee performance.

The following conclusions can be drawn:-

The first research objective was to assess the employees' perception towards the incentive schemes. Employees perceive incentives given are not rightful. Since non-management

employees take the large number to the responses, it is conclude that non-management employees are moderately satisfied with the incentives of the company

The main objectives were to examine the relationship between incentive schemes and employee performance and to determine the effect of incentive system on employee performance. According to the result of descriptive mean analysis, correlation coefficient analysis and regression analysis proved that the incentive schemes which means financial and non-financial incentive schemes are valuable predictors and have an effect on employee motivation and performance. More over when each variable is seen based on computation of means of the different financial and non-financial schemes in relation to employee performance showed that they are satisfactorily satisfied. However, Nyala Motors S.C. employees' performance is affected by the mentioned factors because the mean value the mentioned variables are below average. The respondents think that the items are not acceptable and competitive relative to both the market and the automotive industry.

Based on the results of the study it was understand that financial incentive schemes influences employee job performance more than non-financial incentive schemes in aggregate. However, it is important to note that only financial or non-financial types are not sufficient to motivate employees to attain best perform level, employees should implement a combination of both types of incentive schemes to get the best out of their employees.

Incentive schemes can be regarded as the fundamental expression of the employment relationship, commitment, engagement, satisfaction and company performance development.

The researcher, therefore concludes from the findings that the effect of incentive schemes on employee performance is of paramount important to the company. In turn, human performance of any sort is improved by designing, implementing, reviewing and adjusting the incentive schemes system that is appropriate and satisfying.

5.3 Recommendations

Incentive schemes are fast becoming increasingly a popular technique in attracting, motivating, developing, and retaining employees in organizations. Experience has shown that organizations that provide effective incentives are more likely to have satisfactory job performance from employees. Based on the findings and conclusions of this study, there are recommendations forwarded for better improvement of employees work performance:-

- As per the findings of the descriptive research results are concerned, the incentive system of Nyala Motors S.C. has been to bring motivation of employees slightly above the neutral point this implies that employees are moderately motivated. This calls for a work to be done in the HR policy makers of the company. Those in a responsible position to amend and implement the incentive policies have to see best benchmarking practices.
- Management should come up with short term employee attraction and retention mechanisms. The company cannot go far with unmotivated employees. If employees are not doing their best to the company and they don't consider that the company as the best of all possible organizations for which to work, implies employees losing motivation and commitment to the work and the company.
- Performance goals should be clearly defined and regular reviewing of the performance of employees against performance target standards and recognize accordingly
- Management should seek and obtain feedback on the measure of employee satisfaction survey on how employees perceive incentives. Feedback combined with appropriate incentive schemes produce the strongest effect on employee performance after identifying the incentive schemes which motivates employees most.
- The management needs to develop rightful incentive schemes that include a mix of both financial and non-financial incentives. Incentive type would influence performance differently when applied to the employee. Managers will therefore need to strategically identify incentives that lead to high performance among the employees.
- Bonus payment is important but it is not the single most important factor for motivating employees. There are some other important factors that could maximize employee performance should be taken into consideration such as commission and stock ownership based on the nature of the job and the role of the employee.
- The company should create opportunities for employee promotion (career development) and training by providing cross border job opportunities and skill development that should be provided to boost up employee performance.
- Financial incentives are key in employee incentive schemes, non-financial incentives supplement the same to maximize job productivity, quality and quantity. The company should come up with long term incentives strategy.

- The company should design mechanism that helps to recognize the top performer employees by the management in an individual and group level based on work performance makes a significant differences in terms of the overall productivity of the company.

Finally, it is important to suggest that incentive schemes would be more effective when implemented consistently, fairly and transparently. This would work with organizational policies, procedures and structure supported by the top management.

5.4 Suggestions for Further Research

This study examined the effect of incentive schemes on employee performance at NMSC by selecting specific variables. However, there are so many variables not included in this study. Thus, it is recommended for future researchers to further assess factors affecting employees work performance by incorporating additional variables. To this end therefore, a further study should be carried out to identify other factors which may affect performance but which have not been studied to determine their effect.

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Part I: Personal Data

1. Gender: 1. Male 2. Female

2. Age: 1. Below 25 2. 25 - 35 3. 36 - 45 4.
46 - 55 5. Above 55

3. Marital Status: 1. Single 2. Married 3. Divorced 4. Other

4. Educational Qualification

1. Certificate 2. Diploma 3. First Degree
4. Master's Degree 5. Other, please state _____

5. Years of Service in your current company

1. Below 5 years 2. 5 - 10 years 3. 11 -15 years
4. 16 - 20 years 5. Above 20 years

6. Job Category

1. Management Staff 2. Supervisor 3. Sales Staff 4. Technician
5. Professional Support Staff

7. Monthly Income

1. Below -5,000.00 2. 5,000.00 - 10,000.00
3. 10,001.00 - 20,000.00 4. 20,001.00 - 30,000.00
5. 30,001.00 - 40,000.00 6. Above 40,000.00

Part 2: Close Ended Research Instruments for Data Collection

This section is seeking your opinions regarding the type of incentives which are most relevant to you. You are asked to indicate the extent to which you agree or disagree with each statement using 5 Likert scale. [Strongly Agree; (SA), Agree; (A), Neutral; (N), Disagree; (D) or Strongly Disagree; (SD)]. Please mark to indicate the extent to which you agree or disagree with the following statements.

Sr. No.	Question Items	Rating Scales				
		SD 1	D 2	N 3	A 4	SA 5
Financial Incentives						
	A. Bonuses					
1	Annual bonus based on the company financial targets and achievements.					
2	The existing company bonus pay system is inspiring me to a higher performance.					
3	Bonuses are paid fairly for extra work, efficiency and achievements.					
4	The company usually provides bonuses for all its employees' according to the job grade.					
	B. Profit Sharing					
5	Profit sharing scheme improves company performance by attracting qualified staff.					
6	Profit sharing scheme has a significant role on the retention of key staff.					
7	Profit sharing scheme helps a strong sense of belongingness to the company.					
8	The management of the company is fair in the implementation of profit sharing scheme.					
Sr. No.	Question Items	SD 1	D 2	N 3	A 4	SA 5
	C. Stock Ownership					
9	Share ownership is the most important factor in employee performance.					
10	I am ready to increase my work efforts in order to gain the share ownership.					
11	The share ownership in place favors top management than employees.					
12	Employees often endeavor to meet the set targets to be entitled a stock ownership.					
	D. Commission					

13	Commission usually motivates me to perform better in the company.					
14	A competitive commission for efficient service delivery and productivity.					
15	Commission can encourage me to improve the sales performance.					
16	Commission can contribute to more excellence and healthy competition within the company.					
Non-financial Incentives.						
	E. Recognition					
17	Management recognizing employees whose efforts make a difference.					
18	The company grants a tangible gifts/trophy, I am more motivated to perform better.					
19	Incentive travel to boost the morale of individual or team for work is well done.					
20	I have participated in the decision making of the company goals.					
Sr. No.	Question Items	SD 1	D 2	N 3	A 4	SA 5
	F. Promotion & Career Development					
21	There are enough promotion possibilities to stimulate me to higher performance.					
22	Promotion purely depends on performance and fairly distributed within the company.					
23	Employees are promoted when they earn academic qualifications or special training.					
24	When an employee performs well consistently they are promoted to next level.					
	G. Working Conditions					
25	A positive working conditions is important for me to perform well on my job.					
26	Organizational policies and procedures can promote employee ownership.					
27	Feeling a spirit of teamwork and cooperation among co-employees.					
28	The work environment can elicit greater commitment in me to perform my best.					
	H. Training Opportunities					
29	The company is committed to the training and development of its employee.					
30	The contents of the training program makes the company's employees to be more productive.					
31	The company provides me with skills and					

	knowledge that will benefit my future career.					
32	Employees are encouraged to participate in various seminars and workshops.					
Sr. No.	Question Items	SD 1	D 2	N 3	A 4	SA 5
Perception on Employee Performance						
33	Performance based incentive scheme encouraged me to exert more effort and improve my productivity.					
34	Employee adherence to the expected standard is a key indicator in measuring the performance.					
35	Employee performance helps both employee development and organizational improvement.					
36	Employees' attitude and commitment have positive influence on company's overall performance.					
37	Superior's regular feedback is key in the improvement of an individual's performance.					
38	Employees are motivated to work collectively towards achieving common goals.					
39	The management leadership style has an effect on the level of performance inclination.					
40	The existing incentive scheme program has its own influence on company's overall targets and achievements.					

Any additional comments relevant to the study.

Thank You!

Annex:2

Descriptive mean of the response of the respondents for each questions

	N	Minimum	Maximum	Mean	Std. Deviation
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Annual bonus based on the company financial targets and achievements.	96	2	5	4.46	.614
The existing company bonus pay system is inspiring me to a higher performance.	96	1	5	4.03	.934
Bonuses are paid fairly for extra work, efficiency and achievements	96	2	5	3.82	.821
The company usually provides bonuses for all its employees' according to the job grade	96	1	5	3.76	1.203
Profit sharing scheme improves company performance by attracting qualified staff	96	2	5	4.09	.895
Profit sharing scheme has a significant role on the retention of key staff.	96	2	5	4.08	.890
Profit sharing scheme helps a strong sense of belongingness to the company	96	2	5	4.22	.861
The management of the company is fair in the implementation of profit sharing scheme	96	1	8	3.41	1.011
Share ownership is the most important factor in employee performance	96	1	5	4.00	1.036
I am ready to increase my work efforts in order to gain the share ownership	96	1	5	4.01	1.091
The share ownership in place favors top management than employees.	96	1	5	3.83	.970
Employees often endeavor to meet the set targets to be entitled a stock ownership	96	1	5	3.57	.971

Commission usually motivates me to perform better in the company	96	1	5	3.84	1.069
A competitive commission for efficient service delivery and productivity	96	1	5	4.01	1.071
Commission can encourage me to improve the sales performance	96	1	5	3.92	1.149
Commission can contribute to more excellence and healthy competition within the company	96	1	6	3.92	1.111
Management recognizing employees whose efforts make a difference	96	1	5	3.97	.989
The company grants a tangible gifts/trophy, I am more motivated to perform better.	96	1	5	3.84	.977
Incentive travel to boost the morale of individual or team for work is well done	96	1	5	3.66	1.186
I have participated in the decision making of the company goals	96	1	5	3.15	1.196
There are enough promotion possibilities to stimulate me to higher performance	96	1	5	2.97	1.192
Promotion purely depends on performance and fairly distributed within the company	96	1	5	3.09	1.206
Employees are promoted when they earn academic qualifications or special training	96	1	5	2.93	1.324
When an employee performs well consistently they are promoted to next level.	96	1	5	3.11	1.213
A positive working conditions is important for me to perform well on my job.	96	1	5	4.49	.858

Organizational policies and procedures can promote employee ownership.	96	1	5	3.86	.958
Feeling a spirit of teamwork and cooperation among co-employees	96	1	5	3.96	.905
The work environment can elicit greater commitment in me to perform my best	96	1	5	4.03	.827
The company is committed to the training and development of its employee	96	1	5	3.50	1.179
The contents of the training program makes the company's employees to be more productive	96	1	5	3.76	1.044
The company provides me with skills and knowledge that will benefit my future career.	96	1	5	3.42	1.185
Employees are encouraged to participate in various seminars and workshops	96	1	5	3.05	1.080
Performance based incentive scheme encouraged me to exert more effort and improve my productivity.	96	1	5	3.91	.974
Employee adherence to the expected standard is a key indicator in measuring the performance.	96	1	5	3.91	.930
Employee performance helps both employee development and organizational improvement	96	1	5	4.27	.968
Employees' attitude and commitment have positive influence on company's overall performance	96	2	5	4.40	.718
Superior's regular feedback is key in the improvement of an individual's performance	96	1	5	4.06	.927

Employees are motivated to work collectively towards achieving common goals	96	1	5	3.92	.937
The management leadership style has an effect on the level of performance inclination	96	1	5	4.01	.827
The existing incentive scheme program has its own influence on company's overall targets and achievements.	96	2	5	3.99	.814
Valid N (listwise)	96				