

The Relationship Between Monetary Incentives and Job Performance: Mediating Role of Employee Loyalty

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ABSTRACT : Health care sector is confronting various challenges and among those all dealing with human resource and their performance are few that they need to comply with. The main purpose of this study is to provide an empirical analysis to determine the relationship between monetary incentives, job performance through the mediation of employee loyalty. The cross-sectional data was obtained by using convenience sampling techniques from 302 employees (doctors and nurses) operating in various hospitals located in Islamabad and Rawalpindi, Pakistan. The study has used Smart PLS 3.2.7 for the empirical analysis and drawing conclusion. The statistical results of this study shows that monetary incentives are one of the major factors that make employees stay loyal to their organizations which further leads towards increased job performance. Furthermore, organizations need to provide monetary incentives at premium to their employees so that they can stay in the organizations for a longer period of time hence, resulting in increased job performance.

KEYWORDS: Employee Loyalty, Job Performance, Monetary Incentives.

I. INTRODUCTION

Employees are the most important factor of organization because the success of organization is depending upon the performance of employees (Hameed & Waheed, 2011). Therefore, it is important for the organization to attract and retain their talented employees. Bateman and Strasser (1984) talented employees influence the performance of the organization in a positive manner. Thus, organizations need to invest on them and enhance their performance through higher level of motivation and commitment. Today employees want appropriate rewards for their performance and their loyalty with the organization depends upon the fulfilment of their desires. Organizations must need to include financial incentives and rewards such as profit sharing, bonus, promotion and stock ownership in their strategy to maintain the relationship and increase their loyalty (Saleem, 2011). Incentives are defined as the concrete incentives or any kind of compensation that is given to an employee in the form of cash (Quadri, 2019; Zingheim & Schuster, 1997). Researchers have divided incentives into two types: concrete and moral incentives. Moral incentives refer to the indirect compensation through some certification like appraising someone whereas, concrete incentives refer to the direct way of compensating one's effort by giving them bonus (Quadri, 2019). Employee loyalty is also defined as the capability of an employee to stay in an organization, it might also depend on how much time he or she has spent in an organization and what type of work he or she does in an organization (Uzair, Razaq, Sarfraz, & Nisar, 2017). In past, employee loyalty was defined as the time an employee remains in an organization but, due to the environmental changes its definition was modified to the time an employee remains committed towards organization is said to be as a loyal employee (Prabhakar, 2016).

Loyalty can be described into two ways. Firstly, loyalty is employer's best interest at heart and secondly, loyalty is when an employee remains with the same employer (Preko & Adjetey, 2013). Besides, Flory, Bonet, Guillon, and Cezanne (2014) suggested some components of employee loyalty which includes trust, identification, commitment, participation and attachment. Meanwhile, there are some other benefits of employee loyalty such as: increasing profit, improving quality, reducing turnover, and increasing reputation of organization. Traditionally, it is referred as bond and trust relationship between employee and employer, which means longer the time an employee spends on their job the more loyal they will be but in recent times the modern leaders do not equate longevity with loyalty rather they defined loyalty as the commitment and dedication that an employee gives to their organization (Hatwal & Chaubey, 2014). Job performance is defined as a certain behavior that organizations expect from an individual to carry out (Motowidlo, 2008). Studies have defined job performance as a multi-dimensional concept that includes both task performance as well as contextual performance. Task performance defined as an employee contribution towards the organization i.e. his technical competencies and

job proficiency. Whereas, contextual performance is not linked with the formal job requirements of an employee (Sonnetag, Volmer, & Spsychala, 2008). There are numerous factors that play an important role in achieving the desired level of performance. According to Sonnetag and Frese (2002) job performance is based on the level of expertise and skills that employees possesses meanwhile, good mental model that the employees makes related to their activities play a major role in favoring their performance and increasing effectiveness. In past, several researchers had tested the impact of different variables on performance. Chong and Law (2016) tested the impact of budget-based incentive on job performance by taking trust in supervisor and organizational commitment as a mediator. Darma and Supriyanto (2017) determined the impact of compensation on employee performance by keeping satisfaction as a mediator. Syahreza, Lumbanraja, Dalimunthe, and Absah (2017) examined the impact of compensation on employee performance by taking self-efficacy as a moderator and retention as a mediator. Lestari and Haryono (2020) tested the impact of direct and indirect compensation on job performance by keeping job satisfaction as an intervening variable but still there is a lack of information available related to the impact of employee loyalty on the relationship between monetary incentives and job performance in hospital sector of Islamabad and Rawalpindi, Pakistan, which drive us to determine the relationship between them. Hence, this study contributes to the existing literature in numerous ways. Firstly, this research will help employers to identify the role of monetary incentives in increasing the performance level of employees. Secondly, it investigates the mediating role of employee loyalty between the relationship of monetary incentives and job performance. Thirdly, this research will also help the policy makers of hospital sector of Pakistan to understand the importance of including optimal monetary incentives in their policies as well as the importance of the employee loyalty to achieve the desired level of performance. Furthermore, the paper is organized as follows. Section 2 includes literature review, hypothesis development and theoretical foundation. Section 3 highlights the methodology. Section 4 refers to the analysis part. At last, section 5 represents discussion limitations.

II. LITERATURE REVIEW

Job Performance: Performance of employees plays a major role in increasing the performance of organization and achieving competitive advantage. According to Mello (2014), there are number of factors that contribute in the success of organization however, human resource is the most crucial one. Today organizations are improving the performance of their employees by employing different Human Resource practices because Human resource practices are the major source of achieving competitive advantage (Çalışkan, 2010). Job performance can be defined in number of ways. Nayyar (1994) it is about the execution of the role by keeping in view the standards set by the organization. As per Romanoff (1989), it as an outcome produce during a particular period of time. Some other researchers define performance as a behavior that is efficient for achieving the goals of organization. High job performance is not only important for achieving the competitive advantage of firm but it is also very important for the individuals because it became a source of satisfaction for them. According to Motowildo, Borman, and Schmit (1997) judgmental and evaluative process are required to define performance it is not only define by the actions. Whereas, it is important to differentiate between behavioral aspect and outcome aspect of performance to conceptualize it (Roe, 1999).

Outcome aspect refers to the results of individual behavior and behavior aspects refer to the actions of individual in work situation that are relevant for organizational goals. **Employee Loyalty:** Today employers are more inclined towards employee loyalty because of its linkages with attendance and organizational citizenship. They are frequently searching new methods of promoting loyalty (Hiltrop, 1995). As a result, it decreases the turnover and old approaches are no longer efficient (Borzaga & Tortia, 2006). Employee loyalty is based on a tenure that employee spent in organization (Rhian, 2002). Moreover, Bettencourt, Gwinner, and Meuter (2001) viewed loyalty as an organizational citizenship behavior which reflects the commitment of employees toward their organization by advertising their interest. According to Matzler and Renzl (2006) loyalty is depending upon the satisfaction of employee which means that satisfied employees are more loyal than dissatisfied employees. Loyalty is about showing pride in an organization and not complaining about the organization (Niehoff, Moorman, Blakely, & Fuller, 2001). **Monetary Incentives:** There are number of opinions related to monetary incentives. It is a management tool to motivate employees and increase their performance level (Joppe, Martin, & BA, 2001). Moreover, Hartman (1994) describes incentives as a compensation that an employer gives to their employees for their efforts. Incentives are tangible or intangible rewards that employer use to motivate an individual or group of people to behave in a certain way (Collins, Bronte-Tinkew, & Burkhauser, 2008). It is a variable payment that employer give to their employees on the basis of their outputs or on the basis of their achieved results (Banjoko, 2006). Besides, Monetary incentives are regarded as one of the components of the compensation package (Werner, 2001).

Monetary Incentives and Job Performance: NNUBIA (2020) conducted a research on a manufacturing firm in Anambra state to determine the impact of monetary incentives on employee performance. The study revealed a positive association between salary, wage, commission and job performance. Furthermore, Ponta, Delfino, and Cainarca (2020) conducted a research on a public administration to determine the effect of monetary incentive on employee performance. The results of their study showed that monetary incentives have a positive impact on employee performance. Ponta, Cainarca, and Cincotti (2020) also found a positive link between monetary incentives and employee performance. Hoskin (2016) conducted a research to determine the impact of monetary incentives, feedback and praise on the job performance and satisfaction of employees. The empirical result showed a positive effect of monetary and non-monetary incentive on the job performance and satisfaction. On the basis of above-mentioned studies, the study proposes the following hypothesis:

H1: Monetary Incentives have a significant positive impact on job performance.

Monetary Incentives and Employee Loyalty: According to Saleem (2011) employee commitment or loyalty are based on a financial incentive or rewards. Al-Belushi and Khan (2017) suggested that organizations need to provide right kind of monetary incentive to their employees because it will increase their satisfaction level and enhance their loyalty towards the organization. Idowu, Soyobo, and Adeoye (2019) conducted a research to determine the impact of monetary and non-monetary incentives on the loyalty of employees, they conclude that sufficient incentive packages are required to maintain the loyalty of employees and increase job performance. On the basis of above studies, we propose the following hypothesis;

H2: Monetary Incentives are positively related to Employee Loyalty.

Employee Loyalty and Job Performance: Previous researchers have investigated the impact of employee loyalty and job performance. Phuong and Tran (2020) determined the impact of job satisfaction on employee loyalty and job performance moderated by job positions. They found a positive relationship between employee loyalty and job performance. Melayansari and Bhinekawati (2019) conducted a research to determine the impact of work-balance on employee performance mediated by employee loyalty. The study also revealed a positive effect of employee loyalty on employee performance. Furthermore, Chikazhe, Makanyeza, and Kakava (2020) also found a positive effect of loyalty and perceived service quality on perceived job performance. Nurlaila and Nurdin (2020) conducted a research to identify the effect of quality of work and job satisfaction on employee performance mediated by loyalty. They found a positive effect of loyalty on employee performance. On the basis of above studies, we hypothesize that

H3: Employee loyalty is positively related to job performance.

Theoretical reflection: The mega theory relevant to our study is “Vroom expectancy theory”. This theory suggests that behavior will develop certain attitudes among employees and that will further lead to actions. He realized that job performance was based on certain things i.e. skill, personality, experience, abilities and their knowledge regarding that particular field. He said that the effort employee puts into his work; performance and motivation were all linked to that employee motivation. In his model he has used three variables that are expectancy, valence and instrumentality. Expectancy is defined as the belief of an employee regarding how much effort he puts into his work that will lead towards the increased performance. Valence is defined as the importance that an employee gives or places in his expected outcome. Instrumentality is defined as the belief of employee that if I do well in an organization, the valued outcome will be received (Vroom, 1964). In this study, an organization motivates employees to work well and when they do so they will get incentives for their work that they have done. Employees feel motivated by these rewards and that will create employee loyalty among them as they think organizations cares about their contribution and their needs at the same time. If organizations do not give incentives to those employees who have performed well in the organization, they will feel demotivated and their performance will also decrease, and they won't trust organization rules and procedures that will also lead towards the decrease in employee loyalty as well. Organizations try to motivate their employee by either providing them with the good working environment and in this case with a leader that will make sure that the working environment is motivating employee to increase employee loyalty and job performance. Therefore, it is a continuous cycle from job performance to incentives and then from these rewards to future job performance. The incentives or rewards will determine whether the employees are motivated enough or not if they are not motivated by the rewards given or they think that the incentives given to them are not according to what they have contributed in the organization then their performance will decrease in future.

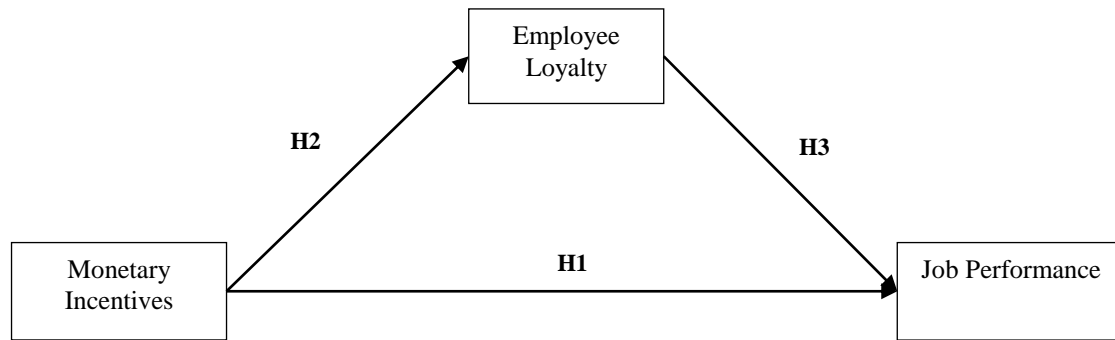


Figure 1. Conceptual Framework

III. METHODOLOGY

Data collection and sampling: The data for this research was collected from primary sources. Data was collected by distributing the questionnaires to hospital staff i.e. doctor and nurses. About 350 questionnaires were distributed to the employees (doctors and nurses) based on convenience sampling techniques and a total of 302 questionnaires were gathered back giving a response rate of 86.2 percent that were later analyzed to see the results for the study. The reason for using quantitative way to collect data was to make sure that we get enough information from the sample so that we can accurately analyze it.

Research and instrument design: This study is explanatory in nature because the main purpose of this study is to explain the relationship between monetary incentives, employee loyalty and job performance. The questionnaire that was used for the collection of data comprises of two portions. The first portion of the questionnaire contains the demographic characteristics which include: gender, profession, sector and year of experience. The second portion contains questions related to the constructs which includes 32 items out of which 5 items are of monetary incentives (MI), 15 items belongs to employee loyalty (EL), and 12 items are of job performance. All the items related to monetary incentives were adapted from (Al-Belushi & Khan, 2017). The items related to employee loyalty were adapted from (Pandey & Khare, 2012) and Job performance items were taken from (Carlos & Rodrigues, 2016). Besides, the respondents were given an option to select one out of five Likert scale options (1= strongly agree, 2= agree, 3=neutral, 4=disagree, 5= strongly disagree).

IV. ANALYSIS

The study has used the partial least square (PLS) approach to analyze the data. The analysis was performed via two different phases. In the first phase, the reliability and validity of the outer model was checked. In the second phase, the inner model analysis was performed which includes the hypothesis testing. The reason for doing two phase analysis was to confirm whether the items used to measure the constructs under observation are reliable and valid enough to gauge the stated constructs, hence determining the linkage between the constructs (Anderson & Gerbing, 1988). The study has used PLS due to its ability to examine the causal relationship between the variables whereas, at the same time it deals with the constructs and measurement items thus making it as a feasible option to use (Petter, Straub, & Rai, 2007). Apart from this, another useful advantage of using PLS is it incorporates both the normally distributed and non-normally distributed data. Besides, it has the ability to analyze the complex structural models (Chin & Newsted, 1999). This study examines the cause and effect relationship between monetary incentive, employee loyalty and job performance; moreover, each construct contains multiple measurement items. Therefore, to investigate the relationship between these variable and to avoid collinearity along with the measurement error, the PLS technique was more suitable as compared to other SEM approaches. This study have adopted Smart PLS (3.2.7) proposed by (Ringle, Wende, & Becker, 2015).

Initially, the study has checked the reliability and validity for both the constructs and its items. Table 1 shows the reliability and validity values for the constructs. Reliability is measured by the Cronbach alpha, which shows the degree of the consistency of the items to measure the constructs. The threshold level for Cronbach alpha is 0.7. Table 1 clearly illustrates that for all the constructs used in the study, the Cronbach alpha is greater than 0.7. Also, the composite reliability for the constructs must be greater than 0.7 (Chin, 1998), which proves that questionnaire used on the study is reliable to measure the stated constructs. On the other side, Convergent validity shows the validity of the content used in the items is relevant to measure the construct or not. Furthermore, Average variance extracted (AVE) values shows the convergent validity and the criteria for the

assessment of the convergent validity is, AVE value for the variable must be greater than 0.5 (Fornell & Larcker, 1981). Table 1 illustrates that for all the constructs used in the study, the AVE values are more than 0.5, thus satisfying the requirement of the convergent validity.

Table 1. Constructs Reliability and Validity.

CONSTRUCTS	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE) values
EL	0.871	0.889	0.543
JP	0.831	0.868	0.563
MI	0.796	0.822	0.522

Note: EL = Employee Loyalty; JP = Job Performance; MI = Monetary Incentives.

Other than convergent validity, it is essential for the outer model to have the characteristics of the discriminant validity. Discriminant validity measures the degree to which the explanatory variables or constructs influence each other. The purpose of checking the discriminant validity is to address whether the independent constructs have the issue of multi-collinearity, which is described as the association between the independent constructs. Hetero-Monotrait (HTMT) ratio is used to assess the discriminant validity and the HTMT values for the constructs must be less than 0.9 (Gold, Malhotra, & Segars, 2001). Table 2 represents the HTMT ratios for the selected constructs and the values suggest that there is no issue of multi-collinearity among the constructs. Hence, the scales used for measuring the variables used in the study are reliable and valid.

Table 2. Hetero-Monotrait Ratio.

CONSTRUCTS	EL	JP	MI
EL			
JP	0.450		
MI	0.337	0.497	

Table 3 depicts the R square and adjusted R square values for the constructs, both of them shows the extent to which the model is fit enough to influence the explanatory variable. The R square value 0.136 or 13.6% for the EL shows that the up to 13.6% of the variation in the EL is due to MI. Besides, out of 100% of the variation in JP, 34% is because of the explanatory variable MI.

Table 3. R square and Adjusted R square

EXPLAINED CONSTRUCTS	R Square	R Square Adjusted
EL	0.136	0.134
JP	0.340	0.335

V. INNER MODEL RESULTS

The empirical result shows that all the hypothesis of the study are supported. Table 4 shows the beta values, standard deviation, P and T values, along with the results related to each hypothesis. The beta coefficient 0.414 for the H1, with the P value of 0.000<0.05 and T value 8.826>1.96 which means that if Monetary Incentives (MI) increase by 1 unit it will cause Job Performance (JP) to increase by 0.414 unit Hence, H1 is supported. Furthermore, table 4 shows that there exists a positive relationship between MI and Employee Loyalty (EL) with a relationship coefficient equals to 0.369 along with P value 0.000<0.05 and T statistics 7.829>1.96, which shows that if MI increases by 1 unit, the EL will increase by 0.369 thus, H2 is supported. Moreover, H3 is also proved with 0.285 as the beta value along with the P value 0.000<0.05 and T value 5.152>1.96, which suggests that if EL increases by 1 percent, it will cause JP to increase by 0.285 percent. Furthermore, fig 2 represents the diagram for the path model analysis. Note that round shape represents the constructs under observation, the values in the inner model shows the beta coefficient along with the p values in the bracket. P values of all the inner paths shows that each relationship between the constructs is significant with the values of 0.000<0.05.

Moreover, the values in the outer path represents the T values of the outer loadings of each construct and T values for each item is greater than 1.96 hence, proving the presence significant outer loadings. Besides, the rectangle shapes in the fig 2 shows the items related to each construct.

Table 4. Hypothesis Results.

Hypothesis	Relationship	Relationship coefficient (Beta)	Standard Deviation (STDEV)	T Statistics	P Values	Result
H1	MI -> JP	0.414	0.047	8.826	0.000	Supported
H2	MI -> EL	0.369	0.047	7.829	0.000	Supported
H3	EL -> JP	0.285	0.055	5.152	0.000	Supported

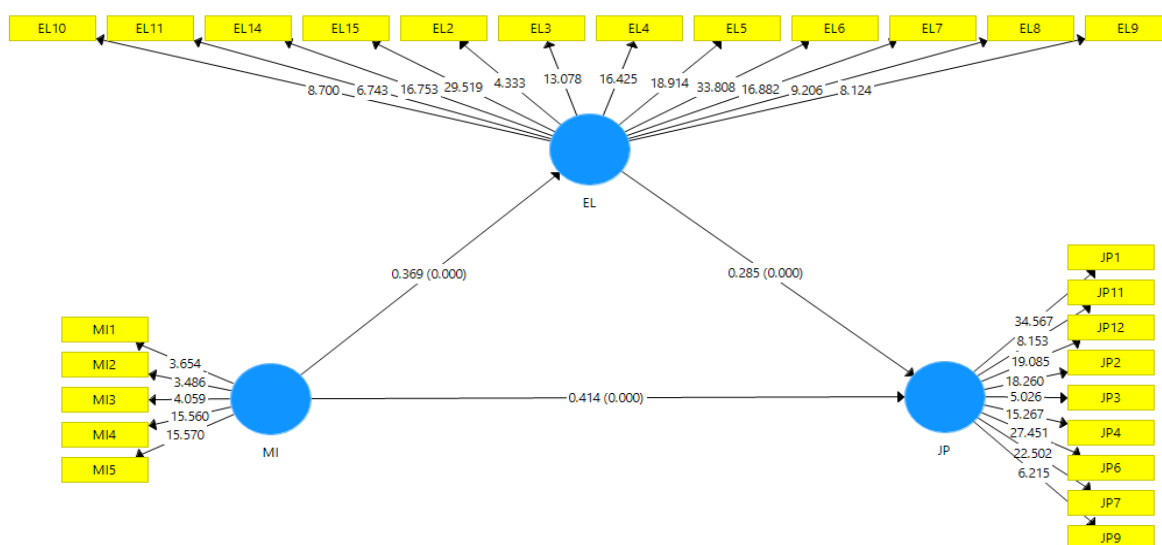


Figure 2. Path Model along with P values and T- values.

VI. CONCLUSION

The main purpose of this study is to determine the relationship between monetary incentives and job performance mediated by employee loyalty. The data was collected from hospital staff of Rawalpindi and Islamabad, Pakistan. The empirical result shows that monetary incentives and job performance are positively related to each other with the significance value of 0.000, which means that the employees of health sector will perform their duties effectively and efficiently if the monetary incentives that they are receiving in exchange of their services are up to their expectation. Furthermore, the findings suggest that there is a positive association between monetary incentives and employee loyalty which indicates that an increase in the monetary incentives, increases the motivation level of the employees, and make them loyal to their organization. Moreover, the relationship between employee loyalty and job performance is also significantly positive with the P value of 0.000 which means that loyal and committed employees perform their duties better than disloyal ones. On the basis of above empirical findings this study recommends the management of health care sector that they should focus on the monetary incentives in order to make their employees loyal with the organization. On the other hand, Employers need to provide the incentive to their employees by keeping in view their performance level as well as the current market rate. Furthermore, they also need to focus on non-monetary incentive because sometimes money is not all what they required.

VII. RESEARCH LIMITATIONS

Just like other researches, this study possesses some limitations. Firstly, all the data was gathered from the employees working in hospitals, future studies should include other sectors such as banking, information technology and tourism. Secondly, future researchers should expand the model by taking transformational leadership as a moderator as well as some other mediating variables. Thirdly, this study focuses on the hospital

of Islamabad and Rawalpindi, Pakistan, future researchers should extend the study to the other areas of Pakistan. Fourthly, the data was only gathered from 302 employees thus, it would be more preferable to increase the sample size for better results.

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