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Effects of Reward Strategy on Employee Performance in Private Banks: An Evidence from Abyssinia Bank, Addis Ababa

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Abstract

This study examines the effect of reward strategies on employee performance in the Western Addis Ababa districts of Bank of Abyssinia. It aims to establish the relationship between employee performance and rewards, utilizing a Census method to collect data from bank employees in the targeted region. The study employed a self-administered questionnaire, and the data was analyzed using the SPSS statistical software, with both descriptive and inferential tools. The findings reveal that the six independent variables (employee salary, bonus, medical expense coverage, educational fee coverage, recognition, and career advancements) have varying degrees of positive relationships with the dependent variable, employee performance. Specifically, career advancements showed a strong positive relationship, followed by educational fee coverage, bonus, and recognition, which had moderately positive effects. In contrast, medical expense coverage and employee salary had positive but weak relationships with performance. The regression analysis further supported these findings, indicating that the identified factors have significant and positive effects on employee performance in the bank. Overall, the study's results align with the existing theoretical and empirical literature, as both descriptive and inferential statistics confirm the identified factors.

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1. Introduction

In the world, there are two competing interests. Employers require their employees to do more with less, while employees are asking for more incentives. This requires that organizations devise a system that strikes a balance, if they want to continue to have increased performance (Puwanenthiren, 2011). Organizations are increasingly realizing that they have to establish an equitable balance between the employee's contribution to the organization and the organization's contribution to the employee. Establishing this balance is one of the main reasons to reward employees.

To maximize the overall performance of the company, the employer needs to understand what motivates the employees and how to increase their job satisfaction. It might, however, be challenging for a company to find out what motivates its employees, especially because different people are motivated by different things (Nursebo, 2012). A reward system is imperative for employee performance, and an increase in employee performance will lead to an increase in organizational performance. In an organizational context of performance, employee performance is defined as the degree to which an organizational member contributes to achieving the goals of the organization. Employee performance is vital to an organization's success, as it is an imperative mechanism that contributes to the success of an organization. According to Motowidlo, Borman and Schmidt (1997) cited in Onukwube (2010), job performance is the behavior that can be evaluated in terms of the extent to which it contributes to organizational effectiveness. Similarly, Jaafar et al. (2006) see job performance as an individual's work achievement after having exerted effort. Guest (2001) regards it as the behavior and outcomes that employees engage in or bring about that are linked with and contribute to organizational goals. Reward systems in an organization help to motivate and retain employees at work, which is an important element of human resource management. A well-designed reward system leads an organization towards higher productivity and employee satisfaction.

Employee reward systems could be defined as a program by an organization to reward performance and motivate individuals as well as group employees. For a company to design a reward system, it should specify the organizational goals to be attained and the specific performance that will attract rewards. By doing so, the reward system will help management shape the behavior of employees, thereby attaining the organization's goal to achieve higher levels of quality and performance. As Hatice (2012) states, "reward systems play a critical role in determining the organization's ability to attract high-potential individuals and retain high-performing employees." To put it another way, effective rewards are the most important way to engage people with their work and their organization (Ibrar, 2015). Employee performance is defined as a situation in which one group of people acts in a specific manner for the benefit of another group of people (Chaundary & Sharma, 2012). It is concerned with employees' work efficiency, how well they perform on the job, and the responsibilities assigned to them as measured against the commonly accepted performance criteria established by their employers (Torrington, 2008). Management uses incentives to motivate workers. As a result, an effective reward system draws new employees to the company and spurs current ones to work harder. According to Malik et al. (2011), the reward system is a very important tool that all banks can use to enhance employee motivation in different ways. In other words, banks give rewards to employees, and the reward system seeks not only to attract new employees to join the bank but also to keep existing employees and also motivate them to perform at a high level (Mohemmed, 2011).

This study aims to answer the following research questions:

1) *What are the factors affecting employee performance at the Bank of Abyssinia?*
2) *How do financial incentives/rewards affect employee performance at the Bank of Abyssinia?*
3) *What are the effects of non-financial rewards on employees' performance at the Bank of Abyssinia?*

Morever, the study was to examine the effect of reward strategy on the performance of employees at the Bank of Abyssinia. Specifically, the study addressed the following objectives:

1. *To measure the effect of financial rewards on employees' performance at the Bank of Abyssinia.*
2. *To examine the effect of non-financial rewards on employees' performance at the Bank of Abyssinia.*

2. Theorethical Framework

Reward refers to recognizing employees, both individually and as a group, for their performance and acknowledging their contribution to the organization's mission (Zaliha, Soonyew, and Laikuan, 2009). Reward encompasses all monetary, non-monetary, and psychological compensation that an organization provides to its employees in exchange for the work they do. It includes both extrinsic and intrinsic rewards (Bratton, 2007).

According to Gross and Friedman (2004), rewards include compensation (base pay, short- and long-term incentives), benefits (health issues, work-life balance, and other benefits), and career development (training and progression). Rewards can be categorized into two main types: intrinsic and extrinsic (Mottaz, 2012).

Intrinsic rewards are derived from the content of the task itself, such as interesting and challenging work, self-direction, responsibility, variety, creativity, the opportunity to use one's skills and abilities, and sufficient feedback on the effectiveness of one's efforts. Extrinsic rewards, on the other hand, come from the work environment, such as promotions, private office space, and the social climate.

The company's reward strategy specifies what an organization intends to do with rewards in the next few years and how it plans to implement it. This leads to the creation of a reward system comprised of interconnected processes and practices that work together to ensure that reward management benefits the organization and its employees. This is considered a strategic approach to reward, where reward and corporate strategy are integrated, and the organization plans ahead to make the plans happen.

Specifically, the HR strategy stems from the business strategy and is concerned with key areas such as resourcing, skills acquisition and development, performance and quality management, rewards, and employee relations. The goal is to make initiatives in each of these areas mutually supportive.

While many managers are intrigued by team-based awards, others are hesitant to apply them due to their complexity and potential negative influence on individual performance. Organizational incentives can include the potential for higher earnings and productivity, comprehensive training that streamlines important business processes, and good communication between employees and management (Larson, 2003).

Intrinsic rewards, such as responsibility, performance, and the task itself, may have a longer-term and deeper impact on employee motivation compared to extrinsic, monetary rewards (Armstrong, 2007). Intrinsic rewards satisfy the internal factors or motivators of the employee, leading to a sense of satisfaction and commitment to their work.

Non-monetary compensation, such as recognition, advancement, working conditions, and appreciation, may also have a significant impact on employee performance (Oroh, Lapian, & Pandowo, 2014).

3. Methodology

The study employed both quantitative and qualitative research approaches to analyze the effect of reward strategy on employee performance at Bank of Abyssinia. The quantitative approach used a Likert scale questionnaire to collect data from managers and employees, while the qualitative approach gathered data on the effectiveness of the organization and managers' perceptions of reward strategy issues. The study used an explanatory research design to examine the relationship between the independent variables (financial and non-financial rewards) and the dependent variable (employee performance). A census method was used to collect data from all 108 permanent employees with at least 2 years of experience across 7 bank branches in western Addis Ababa. Both primary and secondary data were analyzed using descriptive and inferential statistics such as frequencies, means, correlations, and multiple linear regression.

4. Results and Discussion

The survey data provides a detailed demographic profile of the respondents. The majority were male (65.7%) and between the ages of 26-35 (33.33%). Most were married (66.7%) and held bachelor's degrees (69.4%). In terms of their positions at the bank, the vast majority were officers (93.5%), and the majority had over 5 years of service (62%), followed by 4-5 years (32.4%) and 2-4 years (5.6%). This background information on the characteristics of the survey participants helps to provide useful context for interpreting the subsequent analysis of the data.

The model summary and ANOVA results provide a comprehensive assessment of the regression model and its predictive power. The multiple correlation coefficient (R) of 0.887 indicates a strong positive correlation between the set of independent variables (Recognition, Salarr, bonus, educational fee, training opportunity, decision making, , career advancement opportunity, and job security) and the dependent variable (employee performance).

The R-squared (R Square) value of 0.787 further suggests that the independent variables in the model are able to explain 78.7% of the variation in the dependent variable. The adjusted R-squared value of 0.767 demonstrates that the model has good explanatory power and can be generalized to the population. Additionally, the low standard error of the estimate (0.42053) implies a relatively small amount of residual variation in the dependent variable.

The ANOVA results provide strong statistical support for the overall model fit. The F-statistic of 40.245 and the corresponding p-value of less than 0.001 indicate that the regression model is statistically significant, meaning that at least one of the independent variables is a significant predictor of the dependent variable (EP). This provides confidence in the model's ability to accurately predict the outcome variable based on the set of independent variables.

Table 1: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.887[a]	.787	.767	.42053
a. Predictors: (Constant), R, S, B, EF, TO, DM, BEC, CAO, JS				

Table 2: ANOVA

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	64.055	9	7.117	40.245	.000[b]
	Residual	17.331	98	.177		
	Total	81.385	107			
a. Dependent Variable: EP						
b. Predictors: (Constant), R, S, B, EF, TO, DM, BEC, CAO, JS						

The regression results presented in the Coefficients table provide a detailed understanding of the relationships between the independent variables and the dependent variable, EP. The analysis shows that several of the independent variables have a statistically significant positive impact on EP. Salary, with an unstandardized coefficient of 0.153 and a standardized coefficient (Beta) of 0.173, indicates that a one-unit increase in Salary is associated with a 0.153 increase in EP, holding all other variables constant. Bonus, with an unstandardized coefficient of 0.238 and a Beta of 0.268, has a relatively strong positive influence, such that a one-unit increase in Bonus is linked to a 0.238 increase in EP. Education Fee, with an unstandardized coefficient of 0.149 and a Beta of 0.225, also has a moderate positive impact on EP. Similarly, Medical Benefits, Career Advancement, Training Opportunity, and Job Security all demonstrate statistically significant positive relationships with the dependent variable. The standardized coefficients for these variables indicate their relative importance in predicting EP, with Training Opportunity having the largest standardized effect (Beta = 0.695). In contrast, Decision Making and Recognition do not have a statistically significant impact on EP when the other variables are accounted for, as evidenced by their insignificant p-values. Moreover, the regression results suggest that Salary, Bonus, Education Fee, and several other employment-related factors are key predictors of EP, providing valuable insights for understanding and potentially improving employee performance.

Table 3 Regression Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.972	.282		6.989	.000
	Salary	.153	.056	.173	2.733	.007
	Bonus	.238	.064	.268	3.708	.000
	Education fee	.149	.044	.225	3.373	.001
	Medical benefits	.130	.059	.212	2.195	.031
	Career advancement	.168	.068	.225	2.479	.015
	Training opportunity	.537	.059	.695	9.128	.000
	Decision making	.017	.085	.016	.204	.839
	Job security	.450	.083	.572	5.445	.000
	Recognition	.032	.056	.041	.567	.572
a. Dependent Variable: EP						

Source: SPSS Output 2023

5. Conclusion and recommendations

The regression model's strong explanatory power, as demonstrated by the high R-squared value of 0.787, has significant implications for understanding and enhancing employee performance within the organization. This finding suggests that the independent variables included in the model can collectively explain a substantial 78.7% of the variation in the dependent variable, Employee Performance (EP). The statistical significance of the overall model, as evidenced by the F-statistic of 40.245 and the corresponding p-value of less than 0.001, further reinforces the validity and reliability of the regression analysis. This indicates that the model as a whole is a robust predictor of EP and can provide valuable insights to guide organizational decision-making.

The regression coefficients reveal the relative importance of the independent variables in influencing EP. Salary, Bonus, and Education Fee emerge as the most influential factors, with standardized coefficients (Betas) of 0.173, 0.268, and 0.225, respectively. This implies that investments in competitive compensation packages, including salary increases and performance-based bonuses, as well as educational assistance programs, can yield significant improvements in employee performance. Beyond financial incentives, the analysis also highlights the crucial role of non-financial factors in predicting EP. Variables such as Medical Benefits, Career Advancement opportunities, Training Opportunities, and Job Security all demonstrate substantial positive impacts, with standardized coefficients ranging from 0.212 to 0.695. This underscores the importance of creating a holistic and supportive work environment that addresses both monetary and non-monetary aspects of employee well-being and development.

Interestingly, the regression results indicate that decision making and 3ecognition do not have a statistically significant impact on EP when the other variables are accounted for. This finding suggests that while these factors may be important in their own right, their influence on employee performance may be overshadowed by the more dominant predictors identified in the model. Furthermore, the insights gained from this comprehensive regression analysis provide a robust foundation for the organization to prioritize and implement strategic interventions aimed at enhancing employee performance. By focusing on the key drivers of EP, the organization can optimize its resource allocation and HR practices to foster a more productive and engaged workforce, ultimately contributing to improved organizational outcomes.

Recommendations:

Based on the findings, we recommend the following actions to enhance employee performance:

- Salary and Bonus Structure: Implement competitive and fair compensation packages, including regular salary increases and performance-based bonus structures, to attract and retain high-performing employees.
- Educational Assistance: Provide educational fee reimbursement or tuition assistance programs to encourage employees to pursue professional development and acquire new skills, which can directly contribute to improved performance.
- Benefits and Opportunities: Enhance employee benefits, such as comprehensive medical coverage, and create clear career advancement pathways and training opportunities to foster a supportive and engaging work environment.
- Job Security: Ensure stable employment conditions and job security to boost employee confidence and commitment, which can positively influence their performance.
- Performance Management: Reevaluate the decision-making processes and recognition systems to ensure they are aligned with the key factors that drive employee performance.

Conflict of Interests

The authors declare that there's no conflict of interest concerning to the publication of this article

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