

**The Effect of Financial Incentive on Employee Productivity in case study of Somali
Micro Finance in Jigjiga city, Somali Regional State, Ethiopia**

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Abstract

The study was focused on impact of financial incentives on employee's productivity in Somali micro finance institutions. The technique that was used to collect necessary data was structured research pepper interview and questionnaires. Both open and close ended questionnaires are included. The main reason behind choosing this method is to gather factual data, opinion and attitude of employees regarding financial incentives. When study was conducted census technique was used to gather data from employees of the organization. The main reason to select this technique is the employees of the organization are very small. They are exactly 22 employees. Finally the study finding was processed, analyzed and discussed using descriptive methods and the results are presented using table, percentage and pie chart.

Keywords: *Financial Incentive, Employee Productivity*

Introduction

Success of the goal of micro finance institution is depend on the efficiency or optimal utilization of the resources of the organization. In order to perform tasks, inefficient and effective manner employees need a motive factors. Different management theories like hygiene factors and mass low hierarchy of need conclude that incentives is a motive factor. Incentives are necessary to motivate and enhance the productivity of employees but, not the only factor (Schwartz, David, 1980). The study was strongly deals with examining the impact of financial incentives on employee productivity. Financial incentive is one part of compensation which is human resource management functions that deals with rewarding of employees in exchange for good performance in organization (Daft, Richard L; 1997). Therefore, financial incentives is a factor that motivate a person to achieve a particular goal and can readdy enable the employees to see the relationship between what they do and what they get (W,Rule :1997;365). Financial incentive is either direct or indirect. Direct financial incentive consists of pays an employee receives in the form of wage, salary and bonus and commissions. Indirect financial incentive called benefit and services other than wages and salaries arising from the following categories: legal requirement, social insurance payment, private insurance and retirement plans; payment for time not worked, extra payment based on performace and so on (Inancevich :1998;3456). *Moreover*, Throughout the business world, organizations are successful if and only if employees are functional. Employees are the most valuable asset of any organization which is responsible to operate other resources towards achieving organizational goals. When they are hired in the organization they need payments including incentives; which are human resource management function rewards for individual or group of individual for their good performances of the organizational tasks. (Michael Harrier;1997). In Somali micro finance institution there are 22 employees currently working in it. Their level of performance and achievement were determined by various factors, such as:- Economic interest and social interest. In fact Somali micro finance is financial service delivery institution playing many roles in the woreda. This study was concentrate on assessment of impact of financial incentive on productivity employees in Somali micro finance institution. As the main objective of this research is to examining the impact of financial incentive on employee's productivity. This was done with a specific objective of To identify kind of financial incentive given in organization, To differentiate pre and post incentive effect on employee productivity, To identify the relationship between incentive,

motivation and productivity and To explain attitude of employees towards financial incentives weather it has an impact on their achievement or not.

Theoretical Framework

Incentives are monetary benefits paid to work men in recognition of their outstanding performance. They are defined as variable rewards granted according to variations in the achievements of specific results. The international labor office refers to incentives as payment by result. But, its appropriate to call them incentive system of payment emphasizing the point of motivation, that is the imparting of incentive to workers for higher production and productivity. Unlike wages and salaries which are relatively fixed, incentive generally varies from individual to individual and from period to period for the same individual. Financial incentive is either direct or indirect. Direct financial incentives are in the forms of wages and salaries. Indirect financial incentives are benefits and services. It can be defined as all employer provided rewards arising from:- legally required social insurance payments private insurance and retirement plans, payment of time not worked, cost of service, extra cash payment based on performance, clothing service and so on. (Ivancevich, 1998). Incentives are factors created by manger to encourage worker to perform task (Blanket and Alter; 1997). High performance requires much more motivations, ability, adequate equipment, good physical working conditions, effective leadership management, health safety and other conditions that help to raise performance level. But, employee's motivation work harder and better is obviously an important factor. A number of study indicate that if incentives tied to performances the employees produce a higher quality and quantity of work (IVancevich;1998). An alternative approach to motivation and compensation ties monetary incentive to important performance contributions. This may include bonus, profit sharing and related schemes applied to individual groups or both. Bonus, pay plan provide bonuses to employees based on the accomplishment of performance targets or some other extra ordinary contribution such as ideas for a work improvement Bonus have been most common at the executive level. But, they are now being used more extensively in many settings, profit sharing plans distributed to some or all employees a portion of net profit earned by organization during stated performance period. (Shemer horn;1996). Reinforcement theory state that the person behavior in a situation is influenced by rewards, penalties experienced in similar situation in the past. But, the probability to increase that an individual will repeat the desired behavior or outcome is through the positive reinforcement like pay (Plankett;1997;409).

Moreover, financial incentive contribution to workers higher level of performance has been issue among educations. There are also the data in most of studies supported the idea that regularly provided monetary incentive have offered a clear support for a view that financial incentive enhance higher level of performance achievement if its regularly provided. (Lussier; 1997). Individual or employees should be rewarded based on the degree of performance. In order to make the profitability of the organization continuous, the organization should provide incentive based on their performances. Unless, if they are rewarded the same value higher performance may be ignored (Plankett; 1997,491). Psychologists conclude that incentive motivate employees to perform their duties appropriately and make them productive, Fredrick H Herthberg, (1975). Behavioral science psychologist, in his theory of needs called two factor of hygiene motivator conclude that motivation factors are the primary cause of job satisfaction (plankett and Attner; 1997). If financial incentives are properly given, the subordinates or employees will become creative, functional, productive, accountable and have better attitude towards organization goals, coworkers task and they are willingly perform their responsibilities in good or successive manner. From the employee's point of view, pay is a necessary of life. It's one of the chief reason people seek employment. Pay is the means by which they provide for their own and their families needs. For the employer incentives is one of the most important human resources function and it's one of the major methods used to attract employees and motivate them for effective performance (IVancevich; 1998). Financial incentive programs are designed to inspire employee loyalty and increase productivity among employees. For all financial incentive programs, your employees need to understand the criteria for receiving the incentive and how the amount is determined. Most common financial incentives are. Profit sharing: - companies that have profit sharing program set aside percentage of their profit to employees. The better the company does the higher the profit and the more money the employees receive. When employees have financial stake in the company they tends to do work harder and smarter. Raises:- in most companies raises are once a year event greatly anticipated by employees. The amount generally varies depending on the individual's performance and company's philosophy. Stock option:- When the organization grant the employees with the stock option, it refers that the organizations give them a right to purchase company stock at a fixed price (usually market value) over certain amount of time. Stock option encourages staff members to operate more as business partners, trying personal rewards to the company's financial success. Bonuses:- in some organization its paid for meeting specific goals sales and marketing employees can receive most of their compensation

from commission and bonuses. Private and public sector managers are often paid bonuses for exceeding sales and quality bench mark. Bonus occur one. a time per year or at a certain number of predetermined times each year. In addition to these incentives are classified in to financial and non financial as follows. Important financial incentives are attractive wages, bonus, dearness allowance travelling allowance, housing allowance, gratuity pension provident fund contribution, and salary increment; over time and medial expense coverage etc. some of the indirect financial incentives are medical insurer paid time off, retrenchment pension, workers compensation. Generally wage and salary referred to as base pay and bonus, stock option and incentive referred to as variable pay.(<http://www.ehow.com>,7/5/2012).

3. Methodology

When this study was conducted causal research design were assumed because, this study deals with cease and impact. This means it assess the results observed due to financial incentives provision. The study was investigating and describe the impact of financial incentives on employees productivity. The possible ways in which this objective was achieved is through gathering the relevant data from employees. To conduct this study both primary and secondary data were used. To collect the primary data, structured personal interview and questionnaire are used. The secondary data was collected from published and material of the organization. The advantage of using structured personal interviews are: interviewer can control which person was answer the questions. It is possible to gather supplementary information about the respondents and environment and misinterpretation of questionnaire was avoided. In addition to this using questionnaire have the following advantage:- provide the respondents free come to write and explain what they feel, provide them adequate time, the answer was free from bias of interviewer and answers was in respondents words. The respondents of the questionnaire were the employees of the organizations. The technique used for selecting respondents was census technique. The main reason behind selection of this technique is the number of employees of the organization is smaller. They were exactly 22 employees. Since the target population of the study were smaller in number, no need of taking representative in order to maintain the accuracy of the study. The collected data was passed through different steps and processes, like: editing, coding classification and tabulation. At this data processing phase, the error of collected data was corrected. Data analysis is further transformation of the processed data in to clearable forms. In this study description analysis was used. Using the tools like tabulation, percentage

and pie chart. The processed data was transformed in to understandable and meaningful information after the data analysis.

Results

10% of the total respondents are found between the age ranges of 18-25 years. 20% of the total respondents age range are found between 26-35 years. 60% of the total respondents age range is found between 36-44 years, and another 10% of the total respondents age are found above 45 years. This implies that all of the employees are found in the productive age range. Shows that 70% of the total respondents are males and the remaining 30% of the total respondents are females. One can observe that the institution workers are dominated by male, because of that the number of female workers are less than half of the male workers. 85% of the total respondents were diploma holders and the remaining 15% of respondent are degree holders. But, there are no any certificate or master holders in the organization. This shows that the majority of the employees are diploma holders and this implies low educational quality of the employees this can be due to different factors like: finical capacity of the institution, availability of labor force and educational gap. From the total number of respondents 85% of them serves the organization for 4-8 .10% of the respondents served the institution for 1-3 years and the rest 5% of them replied that as they are served the institution for less than one year. This implies that the organization has experienced workers. This can increase the productivity of the workers and directly it contributes more for the achievement of the organization objectives. 65% of the respondents monthly income range is found between the income ranges of birr 901—1200 birr and 35% of the respondents earn above birr 1200. There is no any employee who earns less than 900 birr. This implies there is no as such satisfactory payment in the organization and it refers low salary payment. Shows different roles played by different individual in the organization. 35% of total respondents in the organization hold the position of coordination. Coordinator coordinating different office activities in the organization. In addition to this the organization has different sub units in each Keble which is called WIRTU and the coordinators coordinates the functions performed in each write .20% of the total respondents holds the position of supervision. They supervise daily function of employees and uses performance in their work station. Another 20% of the respondents hold the position of organizer. They bring together any interested person in each Keble and organize them to bring the change in their life and in their economy as a whole through creating different micro enterprise work. The vise manager of the organization is responsible in different decision making purpose and responsible in

performing works of manger when the manager is not present at work. Information desk position is hold by a person who is responsible in gathering and distributing any necessary information throughout the organization and to the users of the organization. Another respondents are holding the position of loan officer and secretary and they are responsible in doing loan giving service activities and typing services respectively. The majority of the workers are assigned in performing coordination activities of office job and WRITU'S function in each kebele. This refers that the function of WIRTUS are used as the main channel in connecting the institution and user and also in achieving the objective of micro finance institution in the woreda. Shows in item one 60% of the respondents are not getting any kinds of financial incentive in their organization. But, 40% of them are receiving an incentive in different forms. This shows that the majority of the employees are not getting incentive. So the practice of providing financial incentive to employees is low in the organization. Among these who receive the incentive 62.5% of them is getting incentive in the form of Bonus. The rest 37.5% of them are receiving in the form of salary increment and no one is receiving it in the form of medical expense coverage and over time. Item number three shows that the impact of having incentive. Among the respondents who get incentive 75% of them explained that incentive they received helps them or motivates them in achieving or discharging organizational responsibilities they assumed and 25% of them explained that, the incentive they received helps them in adding job satisfaction and this increases the productivity of them. In the organization the method of incentive payment is totally based on individual incentive based system. Still there is no the habit of giving incentive thorough the method of organization wide based incentive or group based incentive. Since having incentive has a direct impact in motivating employees towards discharging their responsibility in a good manner, we can conclude that incentive, motivation and productivity has a direct relationship. Absence of group based incentive in the organization shows that, poor practice of encouraging employees to exert peer pressure on group members to perform well. shows among these who do not get incentive 25% of them respond that in sufficiency of budget in the organization results in the absence of incentive and 50% the revealed that having low understanding about positive impact of giving incentive results in absence of giving incentive to employees. 16.67% of them respond that non existence of the culture of giving incentive in the previous period results in poor habit of giving incentive in the present period. 8.33% of the respondents revealed that the existence of management problem in the organization bring absence of provision of incentive in the organization. Since the majority of the respondents said that; having low understanding and low perception of the majority of the

respondents said that; having low understanding and perception of the importance of motivational factors is the main reason for the absence of financial incentive in the organization, it refers that the management of the organization lacks ability to set good strategy in which employee productivity is increased and the objective of the institution is achieved.

Among the employees who get an incentive 37.5% of them respond that incentive they received is satisfactory for the duties they performed or for the efforts they put on the job. And 62.5% of them replied that the efforts property they put on the job and the incentive they received is not balanced. They are given with unsatisfactory level of incentive. This implies that the employers do not consider employees effort properly when they provide an incentive. This brings dissatisfaction of employees and results in less productivity. Item two shows, employee's attitude towards incentive they receive. According to their responses, 50% of them suggested that the institution provides them with fair level of incentive when they are compared it with other organization for similar works. This shows that the organization is comparing the incentive payment given in their organization with external or other related organization payment given in their organization with external or other related organizations payment. Item three of table 4.8. implies that 25% of the respondents said that there is consistency in incentive giving in the organization. On the other hand 75% of them (incentive receiver) said that there is no consistency in incentive provision. This shows that majority of the respondents replied that there is no continuous incentive payment in the organization. So, the organization is weak in providing incentive timely to motivate the employees throughout their working periods. Generally the imbalance between the effort of employees and incentive they receive, non consistency of the given incentive and lack of good fairness in the organization collectively affects the employees performance and this brings reduction of their productivity. Depicts that 40% of the respondents are satisfied with their job, and the remaining 60% of them are dissatisfied. This shows that since the majority are dissatisfied their commitment towards achieving the organization goal are reduced and directly it reduces their productivity. Item tow of table 4.9 asks whether monthly salary level of the workers satisfy them or not. According to their response, 10% of the total respondents are satisfied with their salary and the majority, 90% of the total respondents are dissatisfied. This implies that the scale of payment in the organization is low. The reason for dissatisfaction of both item one and two comes from both internal and external factories as its shown in the following topic. Shows the employees of the organization are asked the reason for their dissatisfaction towards their salary and job. Accordingly 33.3% of the employees these who

are dissatisfied with their job explained that their dissatisfaction is due to work overload and absence of promotion in the organization and 66.7% of them respond that absence of incentive and disagreement of users results in dissatisfaction. The employees of the organizational are also asked for the reason that dissatisfies them on their salary. All of the respondents respond that due to high cost of living and inflation the salary they received is not adequate to cover all living expenses. In general the responses given in table 4.10. Shows poor provision of incentives, lack harmonies relationship between users and organization and low salary payment. Out of the total respondents 40% of them are satisfied with their job and they are asked where the satisfaction comes from. All of them listed the following factors. Good personal relationship, participation in decision making, there is no fear and tension, conformability of the environment and discharging oneself responsibility. To conduct this study both questionnaire and interview techniques were used as a methods of data collection. Structured personal interviews were made with the manager by preparing interview questionnaire. According to interview results conducted with manager there a practice of giving incentive to the employees in the previous period and the change or it's effects has been observed. The impacts or changes observed from employees include: competition among the employees to do their job in a well or good manner to win the reward. This directly implies that the productivity of employees can be increased due to the motive factors. As the interview data shows there are other factors than financial incentives which have positive impact on productivity. These factors include participating employees in decision making and partially service like tax; In general even if the incentive given is poor and the culture of the giving it is not adopted more, its positive impacts observed from that of little practice. The results of interview also show that the administration of the institution also has a plan which enables them in expanding the scope and habit of giving compensation to the workers. In general this interview results shows that there is no good financial incentive payment in the organization but, they are to some extent at the beginning. So, it implies that the practice of motivating employees to enhance their productivity through financial incentive is low.

Conclusion

The main objective of this study is to assess impact of financial incentive on employee productivity. In order to conduct this study questionnaire was prepared, distributed and analyzed. Based on the responses the following conclusion was made. In the organization the number of male employees are larger than the number of females and all of the employees

found in the productive age range. In the organization diploma holders are greater in numbers than degree holders. The majority of the respondents get salary less than 1200 birr and this salary doesn't stratify them. Majority of the respondents serves the organization for more than four years. When the incentive is given to employees the amount of effort the employees put on the job are not considered appropriately and the given incentive is not consistent. So, there is low salary payment, well experienced workers and low consideration of efforts of employees in the organization. The financial incentive in the organization is not given to employees in a good or satisfactory manner. Because only less than half of the total employees are receiving the incentive. Among the incentive given Bonus and salary increment are the major in the organization. The given incentive has an impact on workers' productivity. It motivates them towards working harder than before the incentive provision. The given incentive is accomplished through individual based incentive methods. Many factors which is a cause for the absence of the financial incentives in the organizations include. In adequacy of budget, low understanding of the result of motivational factors, management problem and lack of previous trend or culture of giving incentives. The majority of the respondents is not satisfied with their job due to work overload, absence of promotion and incentive and also due to disagreement of users and some of them are satisfied due to good interpersonal relationship, good environmental conduct and being a person who discharges oneself responsibility appropriately. According to the interview result, there is a provision of financial incentive in the previous period and its impact is also observed. It brings competition among employees and this result in increasing their productivity. The manager also listed a factor that has positive impact on employee's productivity other than financial incentive. The organization also has a plan to expand the habit of giving incentive in the future.

Suggestion For Future Research

Based the finding of this study, the following recommendations are forwarded to overcome the problems. Even though there is a little practice of giving financial incentive to employees, the majority of the respondents are not getting it. Since financial incentives motivate the workers to do work harder, the researcher would like to recommend that it is better if the organization provides adequate and reasonable financial incentive to employees so as to increase the productivity of employees. Since the attitude of the employees on the given financial incentive is not satisfactory due to some unfairness, imbalance between effort and given incentive and non consistency of incentive provision. It is good for the

organization if they consider the incentive given in other organization for similar works, and also give an incentive which is equivalent to the efforts of employees and also it is better if it is based on a continuous manner so as to make the employees more productive. The majority of the organization workers are not satisfied with their job due to work over load, disagreement of users, and absences of promotion so, the researcher would like to recommend that: it is better for the organization if they create harmonious relationship with users to bring cooperation, hire additional employees to simplify the overloaded work and provide different kinds of compensation in line with pattern seven criteria if incentive effectiveness (adequate, equitable, balanced cost effective, secure incentive providing and acceptable to users) so as to bring more employee job satisfaction and to increase their productivity.

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