

# **Performance Based Pay: A Moderator of Relationship between Employee Workplace Behavior and Organization Productivity**

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## **Abstract**

*The study aims to check the role of performance based pay between the employee behavior and organization productivity in the insurance firms, private and public sector banks. The study took the banks (both private and public) and insurance firms working in Peshawar as the population. The study used the calculation of the Krejcie & Morgan (1970) and took 265 from management and 590 from the employees as the sample for the data collection. According to findings of the insurance firm; Employee behavior has significant effect on the organization productivity, Performance based pay has no moderating role between employee behavior and organization productivity. The results of public banks shows; Employee behavior has significant effect on the organization productivity, Performance based pay has partial moderating role between employee behavior and organization productivity. The private sector banks shows; Employee behavior has significant effect on the organization productivity, Performance based pay has a moderating role between employee behavior and organization productivity.*

**Keywords:** Performance based pay, Employee Workplace behavior, and Organization productivity

## **Introduction**

Employees work in an organization and they expect something in return from the organization for their works. To satisfy employees' expectations organization develop a pre define pay structure, which employees know in advance of receiving their reward. Various theories emerged after 1932 for motivation, rewarding, satisfaction and reinforcement to change the behavior of work force with an aim to achieve the organization goals. Maslow's (1943) motivation theory "Hierarchy of Needs", ERG (existence, relatedness, growth) theory by Clayton Alderfer (1969) and Herzberg two factor theories (1959) all conclude to satisfy the employee expectation on the basis of priority of needs. Two factors theory by Herzberg focus on what factors should be eliminated and what should be

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implemented and supported. Theory X, Y, introduced by McGregor (1960s), suggests reinforcing the behavior of employees according to their nature. Skinner introduced Reinforcement theory in 1938 (Perry et al, 2006). Equity theory by Adam 1965, Goal setting theory by Edwin Locke (1960-1968) and expectancy theory by Victor room-1964 (Van Eerde and Thirry, 1996) are various theories with an aim to change the behavior of employees towards work. (Robbins, 2001; Dessler, 2005; Cole, 2004.)

Employee's behavior is regulated by the likely consequences. As Law of Effect (Edward Thorndikes, 1905) state that behaviors, that are reinforced and followed by the positive consequences are repeated and behaviors that are associated with displeasure are not repeated (Dessler, 2005). Psychologists suggest that the behavior of employees depend on the consequences as mentioned above. (Jones and George, 2007).

People usually work because they expect to achieve some goals or to receive rewards for their contribution and effort. Every organization develops its own reward system to recognize the work of their employees. Usually organizations offer both financial and non-financial rewards to enhance the capability and performance of employee. It is the crying need of the organization to develop a proper reward system. Objectives of the study are:

- i). The major objective of the study is to evaluate the employee behavior effects on organization productivity in the insurance firms, private and public banks in Peshawar.
- ii). To measure the moderating role of performance based pay between the employee workplace behavior and organization productivity in the banking and insurance sector of Peshawar.

### **Literature Review**

One of the most studied, intermediate variables in motivation theory is the employee perception about pay systems (Egger-petler et al, 2007, Heinemann and Young, 1991). Researchers have fundamentally focused on perceptions basic to effectiveness of pay system from the point of view of motivation and attitude towards program implementation researchers have found diverse results regarding employee's perceptions such as expectancy, instrumentality and PBP lead to positive results where goals were not obscure with sufficient compensation supported by merit pay plans (Perry et al., 2009)

#### *Workplace Behavior*

O'Reilly, C. (2008) states that the organization gain success due to employee's commitment and participation. Retention rate of employees and their performance improves with commitment while operation cost

decreases with it. Newstrom (2007) terms it “employee loyalty” (as cited in Pandey & Khare, 2012). McMahon (2007) believe that loyalty binds a worker to organization. Schultz (2002) believes that an employee’s loyalty is reflected by his constant effort to stay in organization and his agreement with organization values (as cited in Tolentino, R. C. 2013). Motivation is a psychological force that sets the direction of employees behavior in an organization i.e. employees level of effort and persistence. Behavior means employees association with the organization. Effort measures the extent of employee’s hard work. While persistence shows employee continue determination to achieve goals even in the face of challenges. The various theories of motivation highlight the importance of use of extrinsic rewards for increasing the level of performance for attaining corporate goals (Jones and George, 2007).

Oliver (1974) argues that reward does not exactly change the behavior of an individual. Montana et al., (2008), support this theory, which was first introduced by Vroom in 1964 and argues that an organization must match rewards directly to performance in such a way as desired or preferred by the individual. Vroom explains that being a mental process, motivation governs choices of behavior which is directly controlled by the individual. The making of choice of a particular behavior, from the part of an individual, is done on the basis of an expected result which in turn leads to the final results as preferred by the individual. Thus motivation is generated by an individual’s expectancy, that a particular effort will ultimately lead to desired effort which, will produce a result and this desirability is known as valence.

#### *Performance Based Pay*

Incentives and PBP are common concepts documented in history from 18<sup>th</sup> century BC. King Hammurabi yan Babylon devised laws from the protection. If weak from the powerful Hummurabi’s code was founded on equality of treatment and punishment for all people hence its effects could be seen on every part of Babylon life. Under that code treatment received payment in the form of food on the bases of output which has been the earliest kind of incentive, although such system improved the output but for a short time (Halsall, 1998).

It was unfortunate that the grant of incentives was avoided by Fudal’s during Middle Ages. This resulted in frustration in the working class. Who then avoided taken regular hours of labor because the basic cause of no effort on part of the employees of the employees to produce extra than required (Mirabella, 1999). Lawler (1971, 2000, 2005), at the end of 1700’s the wealth of nations; a classical economic book was published by Adam smith in 1965. He compares the daily wages of workers with the level of production of the industry in his book. He is with the conclusion that high wages enhance the quality as well as the

quantity of work as compared to the low wages (Briggs, 1969). Though smith theory was very simple but his conclusion were perfect and that was the start of pay-for- performance theory. In the next century, in 1885, Edward Atkinson, an American economist proposed that the expensive labor and demanded team of workers always give quality production. Atkinson observed that the outcome is always in poor quality and less in quantity if the wages are unsatisfactory (Mirabella, 1999). Its proved by several researchers that the incentives can bring more production if the workers are appreciated (Denton, 1991, Lawler, 2003, Peach and Wren, 1992). This concept changed the mind of the authorized section while selling the packages (Milkorich & Newman, 2005, Sturman et al., 2005).

#### *Organization Productivity*

Alrawabdeh, (2014) in his research conducted in Jordan, to measure the performance of the organization, he considered the following indicators namely sales, market share, profit, demand, decision making efficiency and customer satisfaction. Richard et al. (2009) considered that the performance of the organization can be measured on three outcomes i.e., first financial performance (which include profit, return on asset, return on investment etc.), second Product market performance (which include sales, market share etc.) and the third shareholder return (which include total shareholder return, economic value added etc.)

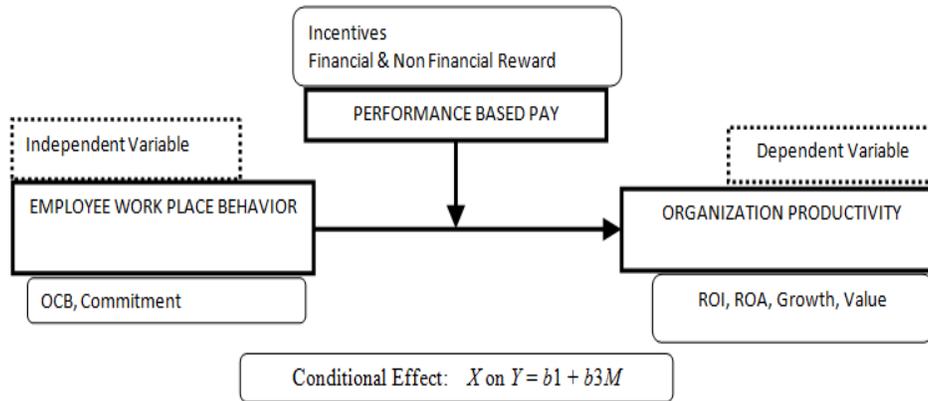
Murphy, Trailer and Hill (1996) were the next to examine the variables to measure organization performance in entrepreneurship research. They identified 71 dependent variables and categorized them into 8 dimensions, namely Efficiency measures: Assets, inventory, receivable turnover, for Profitability: ROI, ROE, ROA and overall return etc.

#### *Hypotheses*

H<sub>1</sub>: Workplace behavior has a significant effect on the organization productivity.

H<sub>2</sub>: Performance based pay has a significant moderating role between workplace behavior has a significant effect on the organization productivity.

### Theoretical Framework



### Methodology

Based on the research epistemology to collect information through data and facts, this study follows the philosophy of positivism; where a large number of sample frame work was selected for the study. The study intends to know the moderating role of performance based pay in employee workplace behavior and organization productivity, closed ended questionnaire was used for this study. The primary data collected from questionnaires, from employee's and management of Life Insurance Companies and Public & Private Banks.

The public sector, private sector banks and life insurance companies operating in Peshawar market will be treated as a population of the study. The list of the population is given below:-

Table 1

S.No	Sector	Quantity
1	Public Sector Bank	5
2	Private Sector Bank	22
3	Life Insurance Companies	7
Total		34

The sample size was determined by the methodology stated by the research study of Krejcie & Morgan (1970). In this research study the researcher stated the size of sample estimation on the basis of the total population size. The below table is the determination of sample in the light of Krejcie and Morgan (1970). The calculation of the table is given below from the public sector banks, private sector banks and also from the insurance firms both for the management and the employees as well.

Table 2: Sample distribution of the study

	Units	Population (Mgt)	Population (Emp)	Sample (Mgt)	Sample (Emp)
Public	2	88	708	88	248
Private	6	208	640	133	234
Life Insurance	2	49	118	44	108
Total	10	345	1466	265	590

The response rate table of the questionnaire distributed to the management and employees of insurance, private banks and public sector banks in the Peshawar market. The table is given on next page:

Table 3: Response rate of management questionnaire

	Units (Mgt)	Pop (Mgt)	Distributed	Received	%
Public	2	88	88	88	100
Private	6	208	160	133	83
Life Insurance	2	49	48	44	91
Total	10	345	296	265	89

Table 4: Response rate of employee's questionnaire

	Units	Pop (Emp)	Distributed	Received	%
Public	2	708	270	248	91
Private	6	640	281	234	83
Life Insurance	2	118	115	108	93
Total	10	1466	666	590	88

## Results and discussions

Table 5: Reliability statistics (Employees)

S.No	Variable	Insurance Cronbach Alpha	Public Banks Cronbach Alpha	Private Cronbach Alpha
1	Performance Based pay	.710	.761	.760
2	Workplace Behavior	.719	.832	.832
3	Organization Productivity	.743	.733	.792

The above table is the values of reliability statistics used to know the validity of the variables used in the paper. The value in this should be more than .70 and the values in the above table for all variables in all sample firms are more than .70 which means that the variables are valid and reliable.

Table 6: Regression

Variable	Organization Productivity		
	Insurance	Public Banks	Private Banks
R-square	0.110	0.512	0.159
P-Value	.000***	.000***	.000***
Workplace Behavior	0.332	0.716	0.399
Beta t-value	2.283***	9.506***	4.982***

The study used the regression model for checking the effects of workplace behavior on the organization productivity in the insurance firm's employees. The R-square of the regression shows the 6 percent variance in the organization productivity by the workplace behavior. The coefficient of the workplace behavior is .332 which means that the organization productivity will be changed by .33 units when the workplace behavior is change by 1 unit OR when the workplace behavior shows change the productivity will show 33 percent change in the same direction. The t-value of WPB is 2.2 which concluded that the WPB has significant effects on the organization productivity in case of employees of the insurance firms. Bari, et. al., (2013) Behavior of employees has a significant effect on the overall business. Monetary rewards alone cannot provide job satisfaction. Employees also need the fulfillment of their psychological needs a part from bonuses and other monetary incentives employees also need non-monetary rewards. Sincere and hardworking workers are mostly satisfied with just the notion that people recognize their achievements and appreciate their skills. Those organization having only monetary reward plans should also incorporate non-financial rewards to their system to enhance the level of employee motivation (Shujat & Alam, 2013). The R-square of the regression shows the 51 percent variance in the organization productivity for public banks by the workplace behavior. The coefficient of the workplace behavior is .716 which means that the organization productivity will be changed by .71 units. The t-value of WPB is 9.5 which concluded that the WPB has significant effects on the organization productivity in case of employees of the public sector banking working in Peshawar. The R-square of the regression shows the 15 percent variance in the organization productivity for private banks by the workplace behavior. The coefficient of the workplace behavior is .399 which means that the organization productivity will be changed by .39 units. The t-value of WPB is 4.9 which concluded that the WPB has significant effects on the organization productivity.

Table 7: Moderating analysis

Model	Insurance	Public Banks	Private Banks
1 Workplace Behavior	0.332 2.283***	.716 9.506***	0.159 4.982***
2 Workplace Behavior	0.292 1.538	.561 4.657***	0.553 4.074***

The value of beta in the model 1 is .332 for the workplace behavior while it has been decreased to .292 in the introduction of performance based pay among the workplace behavior and organization productivity in insurance firms. The decreasing value of beta in the above coefficient table shows that the performance based pay shows no moderation, this is insignificant (1.5) moderating role among the workplace behavior and organization productivity. Reinforcement theory suggests that a response followed by a reward certainly produces a good result in terms of performance (Thorndike's Law of Effect). What this theory implies for compensation is that employee's performance considerably increases when there is a monetary reward for them. The value of beta in the model 1 is .716 for the workplace behavior while it has been decreased to .561 in the introduction of performance based pay among the workplace behavior and organization productivity in public banks. The decreasing value of beta in the above coefficient table exhibit that the performance based pay has partial moderating role among the workplace behavior and organization productivity. The organizational implication of this theory suggests that employees' fair treatment motivate them to maintain a fair relationship with the co-workers as well as with the organization. The structure of this theory in the workplace is based on the ratio of the efforts made by employee as "input" and the reward given to employees against their efforts as "outcomes" (Guerrero et al., 2014). The perceptions of inequality always move the employees to take action to restore equality. Or employees get no interest in work and they followed uncooperative behavior or even quit the job. In equity in the administration of PBP have adverse effects on the achievement of the objectives of the organization. This may have two consequences, firstly start to manipulate to get more advantages with less efforts; secondly in the case of un-equitable and non competitive compensation packages. Good employees may feel discouraged and may leave (Schuler, 1998). The value of beta in the model 1 is .399 for the workplace behavior while it has been increased to .553 in the introduction of performance based pay among the workplace behavior and organization productivity in private banks. The increasing value of beta in the above coefficient table shows that the performance based pay shows a significant moderating role among the workplace behavior and organization productivity.

### **Conclusion**

The regression results of insurance firms for employee behavior and organization productivity show that employee workplace behavior exhibits significant effects on the organization productivity, while performance based pay shows insignificant effect on the productivity in the insurance firms. The employees of the Insurance, Public and Private Banks preferred performance based pay, majority of the respondents responded that the increase in salary should be based on performance of the employee, 86% of employee of Insurance firms and 70% of employee of Public and Private banks responded that the pay program should be based on performance. The regression results of public banks for employee behavior and organization productivity exhibit that workplace behavior shows positive (.716) and significant (t-value: 9.506) effects on the organization productivity and performance based pay also has significant effect on the productivity in the public banks. The regression results of private banks for employee behavior and organization productivity exhibit that workplace behavior shows positive (.399) and significant (t-value: 4.982) effects on the organization productivity and performance based pay also has significant effect on the productivity in the public banks.

### **Future Research**

- The study explored new path and highlighted new areas for researchers to conduct study on organization:
- The researchers are recommended to explore the effects of demographic differences on workplace behavior and organization productivity.
- Why there is partial moderation of PBP in public sector banks and life insurance firms is also a topic of future research.

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