



The Impact of Incentive Systems on Employee Engagement in Performance-Based Pharmaceutical Companies in Nigeria

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ABSTRACT

The study identified factors such as Poor Performance-Based Bonuses, Lack of Employee Motivation, High Employee Turnover, Impact on Organizational Culture, and Competitive Disadvantage that contributed to the decline in employee engagement within performance-based pharmaceutical companies in Nigeria. In response to these challenges, this paper sought to investigate the nature of relationship between Performance-Based Bonuses and Work Engagement in Pharmaceutical Companies in Nigeria. This study was anchored on the Two Factor Theory by Frederick Herzberg in 1959. Employing a survey research design, the study targeted senior staff across the one hundred and sixty-five (165) Local Pharmaceutical Manufacturing Companies in Nigeria. The sample size was determined using Taro Yamane's formula, and the hypothesis was tested using Pearson Product Moment Correlation analysis. The research findings indicated a significant positive relationship between performance-based bonuses and employee work engagement in Nigerian pharmaceutical companies. The study concluded that employees exhibited higher levels of engagement when they were assured that their efforts would be recognized through bonuses and additional benefits. As a recommendation, the paper suggested that management should institutionalize performance-based bonuses in organizational policies to ensure consistency, and employees should be evaluated based on merit to earn these incentives.

Keywords: Incentive Systems, Employee Engagement, Performance-Based Bonuses.

Introduction

In today's dynamic and competitive business environment, organizations constantly seek effective strategies to enhance employee motivation, job satisfaction, engagement and overall performance. One crucial aspect of human resource management that plays a crucial role in achieving these objectives is the implementation of incentive systems. Incentive systems are structured mechanisms designed to reward and recognize employees for their contributions to the organization, fostering a culture of excellence and commitment (Adebayo, 2021).

The concept of incentive systems has evolved over time, reflecting the changing nature of work and the growing importance of employee engagement in organizational success. These systems go beyond traditional compensation structures and encompass a variety of rewards, both tangible and intangible, aimed at motivating employees to achieve individual and organizational goals. Common forms of incentives include salary bonuses, promotions, recognition programs, and performance-based bonuses. Performance-based bonuses, a subset of incentive systems, have gained prominence as a powerful tool for aligning individual and organizational objectives. Unlike fixed compensation models, performance-based bonuses link financial rewards directly to an employee's achievements, thereby creating a direct correlation between effort, performance, and remuneration. According to Onyebolise (2019), this approach is particularly relevant in industries where employee contributions significantly impact overall organizational success.

Performance-based bonuses encompass the allocation of financial rewards determined by predefined performance criteria and measurable achievements. These bonuses are crafted not only to recognize exceptional individual contributions but also to cultivate a results-oriented work culture. The criteria for performance-based bonuses exhibit considerable diversity across industries and organizations, spanning factors like individual productivity, project success, and sales targets (Ajetumobi, 2023). Importantly, the effectiveness of performance-based bonuses extends beyond individual acknowledgment; it significantly influences organizational success, productivity, and overall employee engagement—an integral aspect that shapes the broader dynamics of the workplace.

Employee engagement goes beyond traditional notions of job satisfaction, delving into the emotional commitment, enthusiasm, and dedication that employees bring to their roles. As businesses recognize the pivotal role played by a motivated and engaged workforce, the study and understanding of employee engagement have become integral to human resource strategies.

According to Muyide (2018), employee engagement is a multifaceted concept encompassing the emotional, cognitive, and behavioral aspects of an employee's relationship with their work and the organization. Engaged employees not only invest their skills and efforts in their tasks but also feel a sense

of connection and commitment to the organization's mission and values. This sense of belonging and alignment with organizational goals has been linked to numerous positive outcomes, including increased productivity, higher job satisfaction, lower turnover rates, and improved organizational performance. The roots of employee engagement can be traced back to the evolving nature of work, organizational culture, and the changing expectations of the modern workforce. Traditional employment models, which often prioritized routine tasks and hierarchical structures, have given way to dynamic, collaborative workplaces where employee engagement is recognized as a driving force for innovation and success especially in the pharmaceutical industry (Adedeji, 2021).

The pharmaceutical industry in Nigeria stands as a critical pillar in the nation's healthcare landscape, contributing significantly to public health and economic development. In the dynamic and demanding environment of pharmaceutical companies, the engagement of employees plays a pivotal role in achieving organizational objectives and ensuring the delivery of high-quality healthcare products and services. The nature of work in pharmaceutical companies involves a blend of scientific innovation, regulatory compliance, and market responsiveness. Thus, fostering employee engagement becomes crucial for enhancing productivity, fostering a culture of innovation, and ensuring the delivery of safe and effective pharmaceutical products.

This research endeavors to investigate the significance of incentive systems on employee engagement within performance-based pharmaceutical companies in Nigeria. By delving into the factors that drive engagement and closely examining the unique challenges and opportunities specific to this sector, the study aims to offer valuable insights.

Statement of the Problem

Despite the fact that incentive systems have been widely regarded as a tool for improving employee engagement, work commitment, and productivity, the level of organizational profitability in performance-based pharmaceutical companies in Nigeria continues to dwindle in recent times, as evidenced by the exit of some major pharmaceutical companies from the country. Several factors contribute to this decline, including Poor Performance-Based Bonuses, Lack of Employee Motivation, High Employee Turnover, Impact on Organizational Culture, Competitive Disadvantage, Overall Decrease in Organizational Profitability, etc.

While Okeke (2022) acknowledged the potential positive impact of incentive systems on work engagement, diminished employee engagement, motivation, and productivity, coupled with high turnover rates, contribute to a less efficient and effective workforce, ultimately impacting the unique characteristics of the pharmaceutical industry especially the financial performance of pharmaceutical companies in Nigeria.

The inadequate implementation of performance-based bonuses is a critical factor contributing to the decline in organizational profitability, employee engagement, and overall performance in pharmaceutical companies in Nigeria. Addressing these challenges is essential to ensure the sustained success and competitiveness of these companies in the dynamic pharmaceutical industry.

Objective of the Study

To comprehensively investigate the overall impact of incentive systems, on employee engagement within pharmaceutical companies in Nigeria. Specifically, the study sought to

- To examine the nature of relationship between Performance-Based Bonuses and Work Engagement in Pharmaceutical Companies in Nigeria.

Research Question

- a. What is the nature of the relationship between performance-based bonuses and work engagement in pharmaceutical companies in Nigeria?

Research Hypothesis

H₀¹: There is no significant relationship between performance-based bonuses and work engagement in pharmaceutical companies in Nigeria.

Literature Review

A literature review is a systematic, express and reproducible technique for recognizing, assessing and incorporating the existing body of knowledge produced by researchers and scholars (Fink, 2010).

Conceptual Review

Incentive systems play a pivotal role in shaping organizational behavior, motivation, and performance. Defined as structured programs designed to reward and recognize employees for their contributions, incentive systems aim to align individual efforts with organizational objectives. Recent scholarship offers diverse perspectives on the concept, shedding light on the multifaceted nature of incentive systems and their impact on employee engagement, productivity, and overall organizational success.

According to scholars such as Deci and Ryan (2020), incentive systems encompass a range of extrinsic motivators, including financial rewards, bonuses, and recognition, designed to encourage desirable behaviors and outcomes within an organizational context. These systems go beyond traditional compensation models, incorporating elements that extend beyond monetary remuneration to encompass various tangible and intangible rewards.

Performance based Bonus

Bonus is another form of reward that organizations use to reward employees for exemplary performance that is if they have performed higher or exceed their set targets, this hence makes them eligible (Finkle, 2011). The amount of cash is determined by how high the employee has over exceeded the set targets or they can also be based on ranks or job groups. Nowadays, companies are rewarding performance bonuses to junior employees to increase output, unlike the past where they used to be a privilege of top executives. Performance-based bonus is an extra compensation granted to an employee as a reward for reaching pre-established goals and benchmarks. Employers often reward employees with performance bonuses after evaluating outstanding projects or high-quality work performances.

The bonus amounts are set according to performance-based criteria included in the performance

evaluation system. Periodically, the performance of each employee is evaluated against the tasks established in his or her job description. The work accomplished is reviewed with respect to the major objectives of the organization. For each of these many objectives, an employee is given an ordinal ranking ranging from one ("Doesn't meet standards") to five ("Exceeds standards"). Upon completion of this multi-faceted evaluation, the overall performance of the employee is transformed into a single number. To accomplish this, the sub-objectives within a given major objective are averaged to give the major objective a ranking.

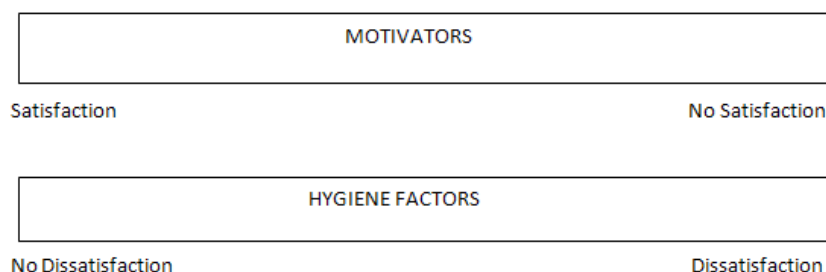
Employees Engagement

Allowing workers to exercise their skills and initiatives is one of the new trends in organization these days. Employees want to be part of the success story of the organization as they feel a sense of belongingness for contributing their quarter in the organization. According to Kahn (2010) employee engagement is the harnessing of organization members to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances. This implies that there is a level of satisfaction and motivation when employees perceive management are empowering them and allowing them to exercise their initiative both in decision making and on their job.

Employee engagement is the extent to which employees feel passionate about their jobs, are committed to the organization, and put discretionary effort into their work. Employee engagement is a workplace approach resulting in the right conditions for all members of an organization to give of their best each day, committed to their organization's goals and values, motivated to contribute to organizational success, with an enhanced sense of their own well-being. It is an approach that increases the chances of business success, contributing to organizational and individual performance, productivity and well-being. According to Nnoli (2018), 92% of business executives believe that engaged employees perform better, boosting the success of their teams and the outcomes of their organizations.

Theoretical Framework

This study was anchored on the Two Factor Theory by Frederick Herzberg in 1959. The two-factor theory (also known as Herzberg's motivation-hygiene theory and dual-factor theory) states that there are certain factors in the workplace that cause job satisfaction while a separate set of factors cause dissatisfaction, all of which act independently of each other. Frederick Herzberg, a behavioral scientist proposed a two-factor theory or the motivator-hygiene theory. According to Herzberg, there are some job factors that result in satisfaction while there are other job factors that prevent dissatisfaction. Herzberg opined that the opposite of "Satisfaction" is "No satisfaction" and the opposite of "Dissatisfaction" is "No Dissatisfaction".



Herzberg's view of satisfaction and dissatisfaction

Frederick Herzberg alludes that on one end lies factors, which when not available will lead to employee dissatisfaction. These factors are intricately connected to the job context. They have so much to do with the environment surrounding the job and are extrinsic to the actual job. On this side, these hygiene factors are responsible for avoiding dissatisfaction. Hygiene Factors are inclusive of:

- i. Pay- salaries and wages are supposed to be reasonable and competitive within a given industry and the structures for salaries should be realistic and suitable.
- ii. Administrative and company policies-there should be transparency in company policies and these policies should be simple and not rigid; that is, it should accept breaks, flexible dress code as well as flexible working hours.
- iii. Fringe benefits-the benefits should contain health care plans, insurances and pensions that include both the worker and their families. These benefits should be reasonable and affordable to the worker.
- iv. Physical working conditions: workers should be exposed to a safe working space. The tools and equipment the worker uses should always be well-maintained and up to date. The working conditions should be hygienic, clean and safe always
- v. Interpersonal relations- managers, workers and subordinates should have an appropriate and acceptable relationship
- vi. Job security- a job should provide a sense of security within the employee

Empirical Review

Akandu (2017) evaluated the impact of incentives and fringe benefits on employee's job performance, a study of Specomill Textiles Limited, Ikeja Lagos. The methodology for research work consists of primary and secondary data, and the methods of data collection included questionnaires, interviews and observation. The population of staff was determined using sampling techniques. Three hypotheses were formulated and tested using chi-square analysis of the data revealed that fringe didn't motivate employees as much as wages and salaries motivated employees to put more effort on their job. It was recommended that fringe benefit in an organization help to enhance efficiency and effectiveness in their job place.

Oni-Ojo, Salau, Dirisu and Waribo, (2015) examined Incentives and Job Satisfaction: Its Implications for Competitive Positioning and Organizational Survival in Nigerian Manufacturing Industries. This paper assessed the attitude of workers towards incentive and their satisfaction to work. A sample of 127 valid respondents selected from the managerial and non-managerial staff and data collected were analyzed using Statistical Package for Social Science (SPSS) through descriptive statistics and regression. The findings revealed that financial rewards encourage workers externally; while non-financial rewards can satisfy employees internally by making them feel like a valued part of an organization. It was recommended that manufacturing industry needs to embark on the restructuring of jobs and responsibilities in ways that would facilitate competitive advantage without sacrificing the basic objective of the organization.

Singh and Gupta (2014) examined the relationship among job involvement, organizational commitment, team commitment and professional commitment and to explore generational differences for these variables. Structured questionnaire survey approach for which data were collected from 477 full-time employees of 13 organizations from diverse sectors in India. Respondents were categorized into four generational cohorts. The findings of the study indicated that professional commitment is negatively related with job involvement, affective organizational commitment, normative organizational commitment, and team commitment. The study concluded that there is a decrease in job involvement, affective organizational commitment, normative organizational commitment, and increase in professional commitment in young generations. Organizations need to take consideration this while designing the HR policies for employees' engagement.

Methodology

Research Design

The study will adopt survey research design. Survey design is one in which a group of people or items is studied by collecting and analyzing data from only a few people or items considered to be representative of the entire group.

Population of the Study

The population of the study will comprise of the senior staff of all the one hundred and sixty-five (165) Local Pharmaceutical Manufacturing Companies in Nigeria.

Table of Selected Local Pharmaceutical Manufacturing Facilities in Nigeria

S/N	PHARMACEUTICAL COMPANY	LOCATION	POPULATION
1.	New Age Pharmaceutical Industry Limited	Abuja	170
2.	Emzor Pharmaceutical Industries	Lagos	579
3.	Juhel Nigeria Limited	Anambra	142
4.	Surelife Pharmaceutical Industry Limited	Delta	101
5.	Abumec Pharmaceuticals Ltd	Kaduna	111
6.	Misbah Pharmaceuticals Ltd	Gombe	113
TOTAL			1216

Source: Various Companies Website (February, 2022)

These six pharmaceutical facilities will be picked using stratified sampling technique.

3.3 Sample Size

The researcher will use Taro Yamane's formula with 95% confidence level to the 1216 population to determine the sample size from the population. The calculation for the sample size by using the formula is given below:

$$n = \frac{N}{1 + N(e)^2}$$

Where n = sample size

N = population

e = level of significance

1 = Constant

The researcher used 5% 'level of significance to determine the sample size.

$$n = \frac{N}{1 + N(0.05)^2}$$

$$n = \underline{\underline{301}}$$

Bowley's proportional allocation formula will be used to allocate the questionnaire to the studied firms to reflect the population size of each of the autonomous quarters.

Instruments for Data Collection

Data for the study will be collected from primary sources. The primary data will be generated through the use of structured questionnaire to elicit required information.

Method of Data Analysis

The study will use frequencies and percentages distributions and cumulative percent to analyze data on profile characteristic of the respondents, using tables, because the data will ordinal. Arithmetic mean and standard deviation will be used in analyzing respondent response

Results

Hypothesis One:

H_{A1}: there is a significant relationship between performance-based Bonus and Employee Work Engagement in Pharmaceutical Companies in Nigeria

		PB Bonus	Employee Engagement
PB Bonus	Pearson Correlation	1	.790**
	Sig. (2-tailed)		.000
	N	292	292
Employee Engagement	Pearson Correlation	.790**	1
	Sig. (2-tailed)	.000	
	N	292	292
**. Correlation is significant at the 0.05 level (2-tailed).			

Source: SPSS Ver. 29.0

Summary of Findings

1. There was a significant positive relationship between performance-based Bonus and Employee Work Engagement in Pharmaceutical Companies in Nigeria

($r = 0.790 > r = 0.000$; $\alpha = 0.05$)

Conclusion

Also, the study shows that there's a strong relationship between performance-based Bonus and Employee Work Engagement in Pharmaceutical Companies in Nigeria as the result of the findings showed that employees are engaged more when they are sure that their efforts would be rewarded with bonuses and other benefits.

Recommendations

Sequel to the conclusion above, the researcher concluded that

1. Management should ensure that performance-based bonuses are enshrined in the organization's policy to ensure continuity and employees should be evaluated on merit to earn it.

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