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The Effect of Performance Based Pay on Employees Motivation

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ABSTRACT-

Based on the initial work which is about an organization's pay structure that were done, two crucial components of pay based on the performance compensation appear to be about enrolment and evaluating the overall performance. The way a manager implements these core criteria's it might either build up one's commitment or obstruct from their point of view about the job satisfaction area in the organisation. With this research we will aim to find out the correlation between the performance based-pay and the commitment towards the organisations and job satisfaction. The working experience of the employees are depended upon how much committed they are towards their organisation and frequent evaluation of their performance and assurance.

Keywords- involvement, evaluation of performance, dedication to the organisation

1. Introduction

We know that motivating an employee or also know as employee motivation has a major impact upon an organizations success and goals. One of the key component strategy we can apply here is of motivating your employees through performance based pay where the employees incentives assist them towards productivity and focusing on their targets and achievements.

One of the strong disagreement of performance based pay is that it helps in increasing the employee motivation and productivity. When we look upon the theories of Herzberg's Two-Factor Theory and Vroom's Expectancy Theory, it states that money is a dominant and dynamic motivator which can make employees remain mor focused and work harder for better performance and gains. Those employees that feel there is a direct connection between efforts and money will be more engaged to surpass expectations. Through this system it becomes easier to recruit people who are top performers and who believe in their capacity to achieve the targets and produce excellent results.

But however performance- based pay aren't always manageable or simple. Even though if monetary rewards can uplift the short term motivation it may not necessarily be a part of process when we look upon the long term goals and engagement. Certain study's indicate that if we keep the employees and workers over reliant over monetary terms of rewards it can effect their mode of creativity and personal and professional development if one focuses to work just for the money

This research seeks to estimates the overall influence of how performance based pay develops an insight of motivation , along with its potential pros and cons. Through a review of empirical studies, theoretical models, and practice, this study will provide with an understanding of how organizations can develop effective reward systems that blend financial rewards with enduring worker involvement and job satisfaction.

2. Review of Literature

Performance-based pay have been studied extensively in behavioural science and organization as a basic and primary source of motivation of the employees. In early studies including the study of Vroom's Expectancy Theory (1964), which signifies motivation is the result when employees feel that the efforts they put in will lead to positive results, regardless of any monetary returns. In addition Skinner's Reinforcement Theory (1953) , correspondingly highlights and stated that behaviour that is rewarded is more probable to be repeated. As per the research in areas like sales, finance, and manufacturing it shows how PBP programs, including bonuses and commission plans, stimulate short-term motivation with relative ease.

So far the research specifies some adverse effects of Performance based pay in long run. In the opinion of Deci and Ryan's Self-Determination Theory (1985), immoderate usage of tangible reward system can reduce the in-built motivation. In the Kohn study from 1993, it came to the notice that employees are absurdly focused and fascinated over the financial incentives and are so captivated with the incentive that it distracts them whatever enjoyment there is for the employee in doing the job in the first place.

A further main issue addressed in the literature is about fairness and efficiency while designing performance-based management. As proposed by Adams (1965), the analysis on the Equity Theory recommends that employees tend to compare their salaries with that of their co-workers/colleagues and get dissatisfied when there is a visible disparity and inequality in the salaries. There can be a demotivation created among the employees if the performance assessment is prejudiced or shows biasness towards the individual.

3. Research Methodology

3.1 Research Design

To understand and make an approach towards intense understanding about how performance based pay affects their motivation, this research acquires mixed-methods for research design that combines both the data from qualitative as well as quantitative collection of data. This research design would be descriptive to analyse the existing trends and perceptions besides correlation analysis which would aim at identifying the correlation between PBP and employee motivation. The research will use primary and secondary data to increase reliability and validity.

3.2 Data collection methods

- a) **Primary Data:** Semi-structured interviews would be collected with HR manager and business owners/leaders to obtain qualitative information on how performance based pays are implemented in their organization and efficiency of such programs for the employees. Surveys will be taken from the employees to rationale their opinion upon performance based pay at work.
- b) **Secondary Data:** Different types of literature were reviewed, which include journal articles, books and some case studies to visualize the context and support the theoretical arguments.

Here are some of the interview evaluation conducted with an HR of the company of USB financial cooperation's. The questions were asked related to how the system of performance -based pay are being implemented in the organization to motivate their employees and customize the overall period of productivity and their involvement and enhancement of certain objectives and missions implemented in this strategy. Basically for the overall data to be collected questionnaires were being used as a main data instrument to invigilate the necessity and cons of implementing employee's motivation through performance-based pay. Below are some of the personal-interviewed qualitative data collected from an HR:

1. **While designing the structure of performance-based pay in your industry how do you balance/create competitiveness and fairness in your organization? What kind of performance-based pay structure is implemented in your organization? What's your thought on this and also are your employees satisfied with this structure?**

Response- As an HR I would take the responsibility of making sure that the performance indication are measurable, transparent in every order, no biasness or favouritism takes place and the performance-based system applied in the organisation is targeting the company's goals. Along with that if we keep their fixed salary with the incentives of performance based pay, it would enhance their motivation and dedication towards the organisation and their work. To check whether the implemented system of performance based really works, we communicate with the workers and employees if they feel any changes in their course of work or feel motivated/dissatisfied with the model and make further changes according to their needs on regular employee feedback.

At USB Financial Corporation Ltd, our commission-based system for agents is designed to be both competitive and fair. Agents earn **40% of the interest generated** from the loans they facilitate, directly linking their earnings to their performance.

- **Competitiveness** is achieved by rewarding high-performing agents with greater commissions, pushing them to secure quality borrowers.
- **Fairness** is ensured as commissions are strictly performance-based, meaning agents earn in proportion to their loan facilitation and collection success.

2. **Has there been any noticeable changes in your employees motivation and productivity after you implemented this strategy?**

Response- According to me, I do find certain changes in the working model of the employees and they seem motivated and there are noticeable improvements and productivity taking place. Employees are ready to take up greater responsibilities as they know it would be directly be influenced to their compensation. Employees are working in a team effectively and in an organising way, completing their targets. There has been an increase in the profit margin and employee satisfaction as well. The sales have gone up and so has the revenue.

Since adopting this commission model, we have seen notable improvements in agent motivation and efficiency:

- Agents proactively seek reliable borrowers to maintain a strong repayment track record.
 - Collection efforts have intensified as earnings are directly tied to successful loan repayments.
3. **On what basis and how often do you evaluate and review your model of performance-based structure and check whether its effective for the employees or not?**

Response- To ensure that the performance of the employees remain fair, static and effective we take upon regular feedbacks and evaluation so as to review and make changes if any needed. We analyse the teams as well as the individual impacts of completion of goals, taking up of responsibility and finishing it within the time or before the deadline, the productivity thesis and how much revenue have been generated.

We assess the effectiveness of our commission-based model using the following key factors:

- **Loan Volume and Collection Rates:** Evaluating how effectively agents disburse and collect loans.
 - **NPA Levels:** Monitoring default rates to measure the quality of loans facilitated.
 - **Review Timeline:** Performance is reviewed **quarterly** to track progress, identify challenges, and make necessary adjustments.
4. **What changes would you redesign in your model if your previous performance-model seemed ineffective?**

Response- If we feel like the performance based pay system is getting ineffective, we try to adjust their pay structure in order that we increase their base salary so that they don't entirely have to depend on the variable incentives for financial stability. We give out flexible opportunities to our employees like learning and training in other departments, enhancing in career development, conducting activities to make them learn and have fun so that they don't get stressed out while working and understanding the work process. We personally ask the employees if they facing any fairness or biasness issues and understanding their concerns to make further changes in the system.

Should our performance-based system prove ineffective, we may consider the following modifications:

- **Tiered Commission Model:** Rewarding agents based on loan quality, ensuring a balance between quantity and repayment success.
 - **Enhanced Training Programs:** Equipping agents with better assessment techniques to identify creditworthy borrowers.
 - **Quality-Based Incentives:** Providing additional bonuses for agents who maintain low default rates.
5. **What are the challenges you face with in implementing as well as maintaining the performance based-system in your organisation?**

Response- We eventually faced challenges with explaining out how performance based pay model works to the employees, as the people working for a longer time in the same organisation didn't have the knowledge about this and were finding it difficult to implement in the work. Sometimes when the top-performer employee gets rewards, the other employees might either feel motivated to achieve the same or more than the top employee or may feel demotivated and unappreciated about their hard work and skills for the same work.

What we do in such situations is that we communicate with our employees if they find this system fair or not, and make the changes. Secondly, we conduct workshops and training to educate employees about how this system works with live examples and measures and ensure their involvement.

Even through these challenges we ensure that our employees follow up with the system if they are comfortable or make changes according to their comfort so that they work in a motivated pace and achieve the company's targets and goals within the limited time ensuring transparency and fairness.

While this model has its advantages, it also comes with a few challenges:

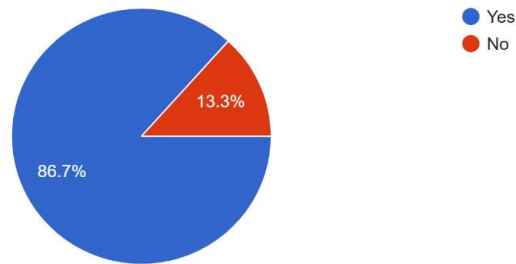
- **Prioritizing Loan Quality Over Quantity:** Some agents may focus on securing more loans instead of ensuring borrower reliability.
- **Collection Challenges:** As agents are responsible for collections, delays in repayment impact both their earnings and company revenues.
- **Regulatory Compliance:** Ensuring the model adheres to financial regulations while remaining attractive to agents.
- **Transparent Deduction Mechanism:** Clearly defining how customer acquisition costs and NPAs impact commission calculations.

The performance-based system at USB Financial Corporation Ltd fosters a results-driven approach that benefits both agents and the company. By aligning earnings with loan quality and collection success, we create a sustainable, competitive, and fair system that enhances productivity while managing risks effectively.

I participated in a primary research and performed a poll of individuals from various backgrounds. A questionnaire was used to conduct this research which look into the involvement of performance-based pay implementation and satisfaction in an organisation. The data collected below is from a total of 45 respondents, comprising of 10 non-managerial staff and 35 managerial staff from various organizations. The data below comprises of individuals with an age group of 20-46 and above and are located in different organizations. Here we have collected their responses and the type of performance-based pay each other companies provide and their thoughts upon this structure. The survey was completely voluntary and the responses for the questionnaires were collected through Google Forms.

Exhibit 1:- Does your organization implement performance-based pay?

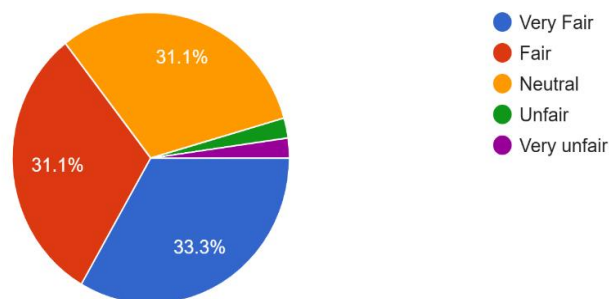
Does your organization implement performance-based pay?
45 responses



Based on the responses received, most of the organizations have implemented performance-based pay structure and systems for the employees. Here 86.7% of individuals indicate the system of performance-based pay is used in their organization. This indicates that most of the organisations look upon the prioritization of pay structures linked to the performance of the employee, aiming to increase the productivity, motivation, efficiency and enhancement of the employees in the organisation. The overall result shows the dominance of performance-based pays as an effective model in the companies.

Exhibit 2:- How fairly do you think performance-based pay is distributed in your organization?

How fairly do you think performance-based pay is distributed in your organization?
45 responses

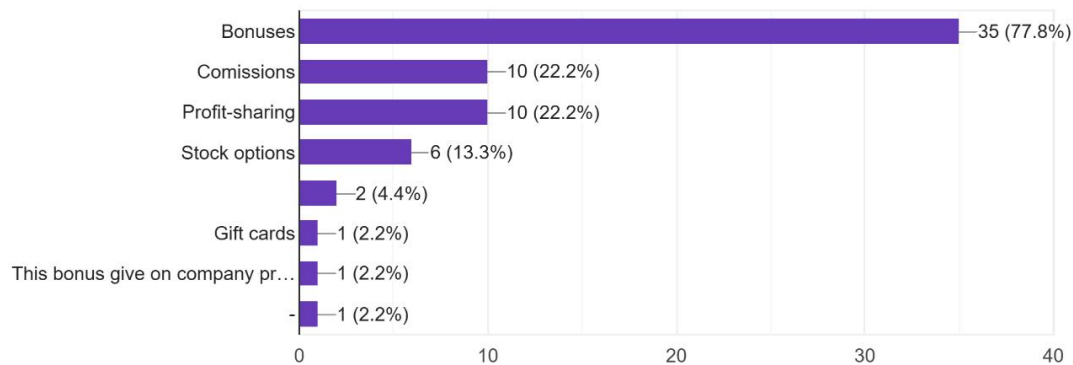


In the above pie chart we get to know the fair treatment of performance based pay distributed in the organisation. In this 33.3% of respondents believe they get very fair treatment and 31.1% get the fair treatment of performance-based pay in the organization.. The other of 31.1% of individuals responses in neutral suggests that the employees may not have or lack clarity about the determination of performance-based pay. The purple section where very unfair indicates a small percent of respondents finds it unfair addressing their concerns through feedbacks, transparency, biasness and overall trust. Overall of around 64.4% of individuals believe they get with the evaluation of the performance.

Explicit 3:- What type of performance-based incentives does your company offer? (Select all that apply)

What type of performance-based incentives does your company offer? (Select all that apply)

45 responses

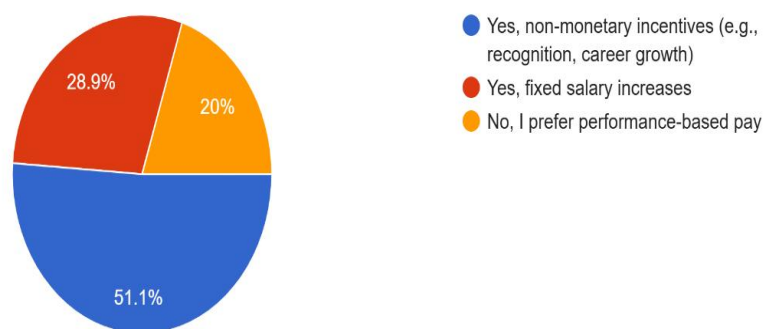


With the reach of about 77.8% , bonuses indicates as the most common incentives in each companies. It serves as primary reward for performance-based pay. We see that stock options are available but at on a less basis whereas profit-sharing and commissions are used by less portions of the companies in 22.2%. Other incentives and gift cards are given on a very rare basis with 2.2% of success rate.

Exibit 4:- Would you prefer a different type of reward system instead of performance-based pay?

Would you prefer a different type of reward system instead of performance-based pay?

45 responses



Through this data we can figure out that most of the individuals (51.1%) prefer non-monetary incentives such as career growth, recognition etc .20% of the employees prefer the present performance based pay system implemented in their organisation and the rest of 28.9% prefer having their fixed salaries upon any other incentives. Overall it suggests that most of the employees are in support of the performance based pay system either of non-monetary incentives and fixed salaries.

Exibit 5:- What improvements would you suggest for your company's performance-based pay system?

Below are the responses of the employees in which they have suggested their opinions about their thoughts and what else could be improved or added to make performance-based pay system more effective for all a well as the organisation.

Response 1- In my opinion, to improve the performance-based pay system, focus on:

1. Clear Metrics: Ensure performance goals are well-defined and aligned with company objectives.
2. Regular Feedback: Provide frequent check-ins so employees know where they stand.
3. Fairness: Ensure equity across teams to prevent biases.
4. Balanced Rewards: Recognize top performers but also encourage development for others.

Response 2- 1. Clear and Transparent Criteria – Clearly define performance metrics and ensure employees understand how their pay is linked to their achievements.

2. Fair and Equitable Evaluation – Use a balanced approach that considers both individual and team performance to avoid favouritism or bias.

3. Regular Feedback and Adjustments – Provide ongoing performance reviews and opportunities for employees to improve before pay decisions are made.

Response 3- To make it monthly If I achieved the target they should pay monthly. Maybe through providing feedbacks to the employees on monthly basis and adjusting the systems according to the business as well as towards employees needs as well

Response 4 - Need some automatization some places to reduce employees manual work .

Response 5- They should motivate by giving bonuses to good performance employees every month. Procedure to be transparent and ethical. To be assessed in all the means of coordination with team, contribution, ethical behaviour and deliverables as a team member.

Response 6- Organization should offer an incentives or increments to their employees on the basis of Work dedication, discipline, interpersonal skills, organizational contributions. Companies should motivate their employees by giving good incentives for working efficiently

Response 7- Make it simple, fair, and motivating. People should know exactly what they're working toward and how their efforts translate into rewards. Give regular feedback, not just once a year. Balance individual and team rewards so no one feels left out.

Response 8- More awareness about the performance based system benefits. And we shall give priority to provide required trainings for improving skills of employees. And we shall ensure fair evaluation and judgement to decide performance of the employees.

Response 9- Avoid partiality and monitor performance randomly. To make employee learn more new skills to improve their performance and personal growth. Hard working payment n payment should be done what work is being done as well as improvements.

4. Results and Findings

With data collected above we have come to know about the findings and results of performance based pay . From the surveys collected, it is being identified that 86.7% of the organizations have implemented with the performance based pay system and is effective in their organization and indicates being motivated and organised to get their work effectively being done. 64.4% of employees believe that their compensation is fairly distributed while the remaining 31.1% don't have much knowledge or idea about how the system works or if its effective on any basis or not.

Most of the organisations provides bonuses as an incentive compared to any other incentives.77.8% of the organisations provide bonuses while 22.2% of the organisations provide with stock options, commissions, profit sharing and other incentives such as gift cards and non-monetary rewards are used as a very less basis. 51.1% of employees prefer non monetary incentives for their development while 28.9% are stable upon their fixed salaries and would like to continue that way.

Improvements have been suggested such as eliminating of biasness and unfair treatment , feedbacks and evaluation is mostly preferred on monthly basis than annual basis by the employees to keep a track, employees wanting a transparency with the implementation of this system so that even of the top performers are getting rewarded, others should not feel demotivated and failed for their hard work and skills.

5. Conclusion

The finding and analysis indicates that there is a positive remark of implementing performance based pay system in the organisation as it motivates the employees and increases their productivity level by taking greater responsibilities. It is a widely accepted motivating tool adopted for the efficiency of the employees. By the way it has it's positives with the productivity of the organisation on the other the organisation has to face particular challenges as well such as biasness, unfair treatment, lack of transparency and increase of possible demotivation of non top performers .

The study highlights the overall implementation of how its been used and how it can create either a positive or a challenging environment for the employees and the organisation as well. With an individual survey we also got responses for the improvements and their suggestions about this system and how they feel about this system in their organisations and what type of incentives are being given to motivate their productivity.

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