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## Performance-Related Pay, Enhance Motivation Towards Organization Development? Empirical Evidence from Pakistan



**Abstract:** - Employees seek employee incentive strategies to assure the organization's long-term development. Extensive research has examined the function of Performance Related Pay (PRP) and Level of Motivation (LoM) in sustaining organizational development. Assessment is significant due to the fact that it is a hotly contested research topic and an essential topic for academic and business discussions. Thus, this study empirically demonstrates the significance of PRP and LoM to organizational growth. The findings are applicable to ABL and Bank Al-Falah, the two largest financial institutions in Pakistan. Two Pakistani institutions comprise the specified context. Even though the PRP literature describes numerous scenarios for developed economies, traditional industries in developing economies receive scant attention. A multiple regression analysis revealed that PRP and LoM have a significant, positive effect on organizational growth. The article also discusses theoretical and managerial implications.

**Keywords:** Performance Related Pay (PRP) ,Level of Motivation (LoM)

### Introduction

In contemporary times, entrepreneurs are in search of methodologies and protocols that amalgamate commercial tactics with those that are fulfilling and inspiring for their workforce. The implementation of a watchtower can aid employers in both employee retention and profit maximization. The topic of employee reward system holds significant value in research as it presents ample opportunities for innovation and experimentation within the realm of business (Delbridge, 2019). Employees hold the belief that they are entitled to a reciprocation for the time and effort invested in their work for their respective organizations. The higher the level of performance exhibited by individuals, the greater the potential benefits that their organization can derive from their specialized knowledge and abilities. Furthermore, it is deemed suitable by management for employees to be remunerated for their contributions (Booth, 2019). Performance-Related Pay (PRP) is commonly linked to a hierarchical pay system, personalized job range frameworks, and remuneration curves. The PRP system offers a rise in the fundamental salary that is not aligned with the employee's performance, output, skills, and competence. Notwithstanding, certain programs incorporate a provision for incentives disbursed under particular circumstances, which are contingent upon evaluations of employee performance conducted by management. The implementation of this framework becomes necessary in situations where an organization intends to utilize compensation as a means of incentivizing employee productivity. Pay structures facilitate the process of establishing a pay grade hierarchy, which is essential for ensuring efficient management of pay practices through the monitoring and regulation of their implementation, with a focus on the human resources aspect (Shields, 2015). Pay structures enable the provision of opportunities related to compensation. The present research investigates the influence of PRP and Levels of Management (LoM) on the enhancement of organizational development within the financial sector of Pakistan. The significance of this objective lies in the fact that research necessitates an inquiry that encompasses the impact of performance-based compensation and the degree of employee drive on the progress of an organization, particularly in emerging economies where literature on the subject is limited (Stewart, 2018).

As per the PRP literature, a significant proportion of PRP implementations are observed in developed western economies. Notably in conventional sectors, there exists a dearth of empirical substantiation to corroborate the efficacy of such programs. Thus, the objective of this research is to recognize a company that is executing PRP initiatives in an emerging economy (Pakistan). Furthermore, the scholars assess the comparative factors of effectiveness of PRP (Stewart, 2018). This investigation holds significance as it sheds light on a practical situation where the mechanics of a proficient performance management system can offer favorable prospects for performance management and human resource management, thereby paving the way for applied research.

The subsequent sections of the document are organized in the following manner. This section provides an evaluation of a literature review that presents the theoretical underpinnings. The subsequent segment pertains to the research methodology, which outlines the procedural measures undertaken by this study to formulate its research framework and subsequently assess its empirical soundness and consistency. Ultimately, the results of the analysis are deliberated upon, including their potential ramifications and recommendations for subsequent investigations.

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## Literature Review

### *Performance Related Pay (PRP) and organizational development:*

The implementation of PRP in an organization is dependent on various factors. If it is deemed suitable, it can be executed; otherwise, it may not be feasible. The successful implementation of PRP within an organization is contingent upon the consideration of critical factors such as culture, values, norms, and expectations (Alsalem, 2016). The Performance-Related Pay system, based on its roots in performance management, its ability to clarify performance and developmental objectives, and its utilization in offering a concrete form of acknowledgement, can hold greater importance than the total amount of remuneration disbursed. According to Appelbaum (2018), certain organizations consider PRP to be a crucial aspect owing to market demands and the anticipation of employees that it is a customary competitive procedure. Stewart (2018) asserts that the proliferation of PRP programs occurred swiftly during the entrepreneurial era of the 1980's, facilitated by a resolute dedication to a market-based economy that readily subscribed to the notion that monetary incentives represent the most effective and occasionally sole catalyst for enhanced performance.

Furthermore, PRP is utilized by both private and public sectors to tackle diverse human resource concerns. During the 1990s, numerous organizations experienced disappointment with the outcomes of PRP, leading to a negative reaction towards the practice. As per the argument presented, there exists a noteworthy correlation between performance-based remuneration and organizational growth in Pakistan's financial sector.

### *Level of Motivation (LoM) and organizational development:*

In recent decades, there has been a contentious debate surrounding the benefits and drawbacks of individual PRP. The topic has been extensively researched and continues to be a subject of debate, as demonstrated by recent discussions surrounding the adoption of PRP for educators employed by government-run establishments. According to Bailey and Fessler's (2015) perspective, PRP is a versatile and economical approach to distributing rewards fairly across different levels of performance, while also aiding in the attainment of organizational objectives (Bailey, 2015). In order to achieve maximum efficacy and approval, it is imperative to exercise caution and diligence in the implementation of PRP initiatives over a prolonged period. It is important to provide executives with a comprehensive briefing regarding the capabilities and limitations of PRP. The assessment process takes into account the factors outlined by Bakoti (2017). It is imperative that the process of designing and developing PRP schemes encompasses a thorough delineation of the requisite performance standards, the corresponding incentives linked to such performance, and an unbiased mechanism for assessing performance. The Performance-Related Pay (PRP) scheme is designed to align with the employees' value-for-money expectations and offers a significant incentive. As per Nujjoo's (2018) findings, the PRP scheme's profitability must be adequate to offset its expenses. Prior to implementing PRP, organizations should inquire into the following queries (Perumal et al., 2018).

In the event that an organization is unable to provide satisfactory responses to the aforementioned inquiries, a potential solution could involve the implementation of a "variable pay" structure, which exclusively grants monetary incentives to personnel who consistently exhibit exceptional levels of performance (Perumal, 2018). The implementation of Performance-Related Pay systems has been subject to critical evaluation by organizations, which have identified defects resulting from an overzealous approach and inadequate analysis. According to Zareen (2017), there exists a notion that the system was burdened with excessive expectations as the primary mechanism for enhancing performance, and that an excessive emphasis was placed on performance enhancements that were one-time and short-term in nature. In practical application, the implementation of an impartial and objective system may encounter challenges in fulfilling its intended objectives. Consequently, an attempt was undertaken to aggregate a multitude of scholarly investigations regarding the impacts of PRP integration in enterprises. The discourse included references to both favorable and unfavorable effects and reactions. Furthermore, scholarly literature documenting criticisms of the theory, principles, and practices of PRP has been referenced. Conversely, extant literature has reported empirical investigations and favorable perspectives regarding the beneficial impacts of PRP on business entities. In conclusion, it is common practice to strive for a harmonious reconciliation of the two viewpoints and adjust all variables under consideration (Pugno, 2018).

An in-depth analysis of the importance of organizational development in relation to enhancing employee satisfaction is given in the study by Aram et al. (2015). The research indicates that distributive justice has a positive impact on job satisfaction, whereas procedural justice has a negative impact on job satisfaction. According to Akram (2015), the practical implementation of organizational development has the potential to enhance employee satisfaction. Bakoti (2017) posits that organizational development is not merely a rudimentary assemblage of procedures or conventional processes. The process of achieving organizational and individual goals involves a dynamic and integrated approach that fosters harmony between management and employees. As per their

assertion, organizational development encompasses both structural and behavioral components that enable operations and ensure the transmission of desired conduct through self-accountability. Consequently, it can be inferred that organizational development encompasses a wide range of techniques aimed at improving both qualitative and quantitative measures of performance. This approach serves as a powerful motivator, ultimately leading to increased employee commitment to their workplace and organization (Bakoti, 2017). Alvesson and Sköldbberg (2018) underscore the integration mechanism of organizational development and human resource management in two distinct manners. The implementation of a “pay-for-performance” structure integrates an organization’s development and human resource management; whereby higher remuneration is awarded for superior performance. The integration in question enhances and fosters organizational behavior for the benefit of the human resource management department, which is primarily concerned with the organizational development of a particular industry or sector (Alvesson, 2018). According to Bakhshi’s (2019) research, it is argued that an individual’s organizational development is closely linked to their work style and intended demeanor’s quality, thus the outcome should not be conflated with other systematic factors that are contingent upon it (Bakhshi, 2019). Based on this argument:

H<sub>2</sub>: There is a significant relationship between the LoM and organizational development.



Figure 1. Research model

**Research Methodology**

This research follows a deductive approach where the initial literature review helped identify the problem, hence the research gap. Based on such literature, this study identified the Figure 1 research model. Then, a questionnaire got designed. The first part got composed of a cover letter inviting voluntary participation and showcasing ethical approval for this study from the ethical review board of a higher education institution. In this cover letter, respondents got assured of the confidentiality of their collected data. Table 1 depicts twenty questionnaire items. The second part confirmed whether the respondents were employed by the two targeted banks, followed by gender, age, education level, and employee rank: regular employee, officer, or manager. The third part is composed of a 20-item questionnaire where the first seven items pertained to PRP (independent variable), and adapted from Asekun (2015). The next seven items were regarding the LoM (independent LoM through the lens of job satisfaction) Bakhshi (2019) and Asekun (2015). Next were six items about Organizational development (dependent variable) adopted and adapted from Lok and Crawford (2000).

Table 1: Questionnaire items

According to the Figure 1 model, the first independent variable: Performance-related pay gets adopted and adapted from Asekun (2015)

PRP_1	I am satisfied are you with your take-home pay.
PRP_2	I am satisfied are you with your benefits package.
PRP_3	I am satisfied with an increase in my performance-related pay.
PRP_4	I am satisfied with the overall pay structure.
PRP_5	Performance-related pay has been necessary for this competitive environment.
PRP_6	Performance-related pay conveys a strong message about Organization.
PRP_7	Performance-related pay controls turnover.

The second independent variable is LoM got portrayed through the lens of job satisfaction, and gets adopted from Bakhshi (2019) and Asekun (2015).

DM_1	I prefer the chance to work alone on the job.
DM_2	I prefer the chance to do different things from time to time.
DM_3	I prefer the chance to be somebody in the community.
DM_4	I prefer the chance to tell people what to do.
DM_5	I prefer the chance to try my methods of doing the job.
DM_6	I prefer the way my job provides for steady employment.
DM_7	I prefer the way organizational policy gets put into practice.

The dependent variable is organizational development which gets adopted from Lok and Crawford (2000).

- OD\_1 My Organization is not resistant to change.
- OD\_2 My Organization is not introducing enough new policies and procedures.
- OD\_3 My organization favors change.
- OD\_4 My Organization can change.
- OD\_5 My Organization has no unresolved conflicts.
- OD\_6 My Organization has adopted a mechanism to find itself together.

Note\*: all items are measured based on a five-point Likert Scale where one is strongly agreed, and five are strongly disagreeing.

The sought target population were employees, officers, and bank managers of ABL and Bank Al-Falah in Pakistan. One hundred and fifty responses were received. Such is a valid sample size, considering that there are 200 bankers in these two banks. To generalize over the entire target population of bankers within these two banks, a sample of 132 would be sufficient as a minimum requirement based on a 5% margin of error, 95% confidence level, and 50% response rate (Raosoft, no date). SPSS got applied for performing multiple regression analysis for hypotheses testing and assessing the validity and reliability of the study's instrument. Table 1 depicts the information of the descriptive statistics, such as the value of the Standard Deviation (SD), minimum (min), maximum (max), and mean.

Table 1: Descriptive statistics

Variables	N	Min	Max	Mean	SD
Gender	150	0	1	0.69	0.463
Age	150	1	3	1.81	0.610
Education level	150	1	3	1.63	0.660
Current role: regular employee, officer, or manager	150	1	3	1.35	0.670

According to Table 2, the demographics portray the majority being males between 25 and 31 and are regular employees of the one hundred and fifty.

Table 2: Demographics Characteristics of respondents

Sample Characteristics	Frequency	%	
Gender:	Male	103	69%
	Female	47	31%
	Total	374	100%
Age:	18-24 years	45	30.2%
	25-31 years	88	59.1%
	32-38 years	17	10.7%
	Total	150	100%
Rank:	Regular employee	91	55.6%
	Officer	41	27.8%
	Manager	16	11.2%
	Other	2	5.3%
	Total	150	100%

**Data Analysis and Results**

Cronbach's  $\alpha$  got calculated to assess the composite reliability for all the three constructs (PRP, DM, and OD) items. Its value should exceed 0.6 (Razzaque et al., 2020). Table 3 depicts that all constructs are reliable since the Cronbach's  $\alpha$  values exceed 0.6; hence are acceptable and range from 0.763 to 0.866. Such empirical findings reveal that the items for all three study variables are reliable. Hence, no items got deleted.

Table 3: Cronbach's  $\alpha$  value of variables

Variables	Cronbach's $\alpha$	N of items
PRP (independent variable)	.763	7
DM (independent variable)	.866	7
OD (dependent variable)	.823	6

Next, for assessing instrument discriminant validity, this study followed Razzaque et al. (2018) when conducting correlation analysis. According to Table 4, the p-values assess the significance level between variables. In order to express a correlated relationship between variables, such a value needs to fall below 0.05. Fortunately, all the correlations are below 0.7, hence are acceptable, as advised by Razzaque et al. (2018).

Table 4: Pearson correlation statistics with p-value = 0, N = 150

Variables	PRP	DM	OD
PRP	1		
DM	0.544**	1	
OD	0.671**	0.511**	1

According to Table 5's depiction, a multiple regression analysis got conducted to assess the two hypotheses. The rationale here is to evaluate convergent validity. Table 5 encapsulates hypotheses H1 and H2, where both hypotheses are positively significant. Henceforth, all get supported by the analysis in this study. According to Table 5 PRP positively and significantly affects OD ( $\beta = .988$  and  $p < 0.01$ ). Hence, hypothesis 1 (i.e., H1) gets endorsed. Also, PRP positively and significantly affects OD ( $\beta = -0.439$  and  $p < 0.01$ ), hence revealing endorsement for H2.

Table 5: Summary of the regression analysis

Models M1	Hypotheses H1	Relationship	F	t	R <sup>2</sup>	$\beta$
		PRP → OD	322.133	Sig .000	67.5%	.988
	H2	DM → OD		13.664		.439
				Sig .000		

### Discussion and conclusions

The research examines the implementation of PRP and the LoM to develop ABL and Bank Al-Falah bank, the two leading banks in Pakistan. Table 5 depicts that both hypotheses get supported. The empirical support for the first hypothesis reveals a positively significant influence of PRP on organizational development for the two major banks of Pakistan. Moreover, scholars like Alsalem (2016), Appelbaum (2018) and Stewart (2018), whose work got certified by this study to formulate the first hypotheses, are now also supported by the H1 empirical revelations of this study. Furthermore, the empirical support of the second hypothesis reveals a positively significant influence of LoM on organization development for the two major banks of Pakistan. Moreover, scholars like Bailey and Fessler (2015), Bailey (2015), Bakotić (2017), Nujjoo (2018), Perumal et al. (2018), Perumal (2018), Zareen (2017), Pugno (2018), Akram et al. (2015), Akram (2015), Bakotić (2017), Alvesson and Sköldberg (2018), and Bakhshi (2019), whose work got certified by this study to formulate the second hypotheses, now get supported by the H2 empirical revelations of this study.

The following conclusions get drawn as managerial implications of such findings for the two major banks of Pakistan. First, the banks should remain to pursue their PRP initiatives. However, constantly evolving business procedures and the mechanism for assessing employee performance get underpinned by the evolving scheme that incentivizes employees to motivate the long-term sustainable growth and development of the two banks in Pakistan. The two major banks under study should constantly evolve their PRP and LoM schemes while aligning them with the two banks' mission, vision, and objectives. PRP and LoM should also get aligned with the employee's career aspirations. Such a proposition is possible if these two banks continue their managerial and financial commitments underpinning the success of PRP schemes. From the perspective of change management, a formal mentoring system should get incorporated within the banks so seniors can coach the juniors. Such an organizational culture could prevent the junior employees from ignoring such reward mechanisms.

### Limitations and future research

It is imperative for the study to acknowledge its limitations. The survey was limited to specific cities due to constraints related to geography and scheduling. The outcomes of this research are relevant to both major establishments in the sample, as there exists no variation in the execution of the personnel programs. Subsequent qualitative research may be undertaken on these employees to ascertain whether their viewpoints are congruent with the outcomes of this investigation. Furthermore, it is possible to conduct an inquiry into the implementation aspects of PRP at ABL and Bank Al-Falah, including performance metrics and assessment protocols. Given that the implementation of PRP would represent a novel development for banks, it may be worthwhile to undertake a study on the perspectives of other personnel who have recently been incorporated into PRP.

Another limitation could be that a cross-sectional data collection leads to bias in the common method findings the empirical findings, particularly since independent variables and the dependent variable of the Figure 1 model got assessed cross-sectional within one questionnaire. Hence, future research can investigate the aim and model of this study through longitudinal data collection.

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