



---

**EFFECT OF PERFORMANCE BONUS ON EMPLOYEE RETENTION IN  
SELECTED DMBs IN MAIDUGURI METROPOLIS, BORNO STATE**

**ELIZABETH LUKA MUSSA; ALHAJI MODU MAINA; & HADIZA USMAN KYARI**

*Department of Business Administration & Management, Ramat Polytechnic  
Maiduguri*

---

**Abstract**

*This study examined the effect of Performance Bonus on Employee Retention in Selected Deposit Banks in Maiduguri Metropolis, Borno State. The population of the study was 198 respondents with a sample size of 132 respondents obtained using Yamane's formula. Data was collected using structured questionnaires administered to the respondents. The data collected was analysed using multiple regression analysis with the aid of statistical package for the social sciences (SPSS). The major findings of the study revealed that, there is significant effect of performance bonus on employee retention in the study area. The study concludes that monetary reward offered to employees' in banking sector leads to performance and plays a vital role in determination of their level of retention, where as inadequate monetary reward is percept as major setback to employees retention and this would brought about low performance and high employees' turnover. Therefore, study recommends that management should endeavour to shows the present of fairness in their monetary rewards as employees are agents who are affected by the performance bonus, management should also try as much as possible to adopt good and positive retention strategies to increase the morale of the workers toward performance.*

**Keywords:** *Performance bonus, monetary reward, employee retention, Deposit Money Banks*

---

**Introduction**

Ability to attract and retain skilled and experienced employees as well as keep them highly motivated has become very imperative in today's competitive environment. Reward system play an important role in shaping the employee's behaviour, and they are the most powerful means of

communicating the organisation's value, performance standards and expectations through the stimulation and direction of employees along the path of goal accomplishment. Ability to attract and retain skilled and experienced employees as well as keep them highly motivated has become very imperative in today's competitive environment. Organisations are setup to achieve specific goals and that employee's is the most vital resource in the achievement of the goals. Commercial banks as institutions that mobilize funds from surplus to deficit, act as a tool for economic growth and development, particularly for developing economy like Nigeria. To retain employee's require motivation and the factors that motivate employees to stay in their job are therefore vital as its affect the performance of the organization. However, skilled employees' enable the organization to gain competitive advantage.

Similarly, reward system has been identified as essential tool that deposit moneyl banks can use to keep skilled and experienced human resource in a desired ways. Therefore, monetary reward plays a critical role in motivating and retaining competent employees. In Nigerian banking sector, several rewards package are provided to committed and dedicated employees, such rewards are end of year bonus, sharing the portion of organization 's profit to employees are proved to be effective in retaining key workforce. Armstrong (2002), indicates that a monetary reward system is part of the overall strategic plan of the organization. It is also pragmatic in nature in the sense that an organizations, from time to time consider the desirability of reviewing it or not. A monetary reward therefore, is a veritable means of attracting human resources and reducing labour turnover.

In the same light, Antomioni (1999), posits that the amount of effort employees are willing to put in their job depend on the degree to which they feel their motivational needs will be satisfied. Furthermore, employees become de-motivated if they feel their needs are not taken care up in the organisation which prevents them from attaining a set target. Though, to prevent switching of employees from one bank to another, there is a need to design a well-planned reward programs that can stimulate employees to appreciate their job. Over the years, it has been asserted that the selected deposit money banks in Maiduguri Metropolis have made efforts to improve the rewards of their employees at all levels so as to boost their morale. However, such efforts have not yielded the desired results, as lack of

motivation and rewards have been identified as the major causes of high employee turnover in those banks.

Similarly, it has also been observed that monetary reward is the effective motivator in those banks, as it leads to the attraction and retention of employees in the banks. This resulted in the relative stability of their operation. As a result, this trend has taken another dimension because system of rewards employed in the past to retaining employees may no longer persuade bank workforce of today. This is the major reasons instability of labour is looming in Nigeria's banking industry. Therefore, the selected commercial banks have embarked on strategic measures and policies to reverse the trend. The measures include sharing a portion of bank profits to all cadres of staff at the end of financial year. Despite the measures and policies taken by the banks, employees' turnover is still unabated and retention of competent employees has been a major challenge. However, the intends of this study is to assess the effect of performance bonus on employee retention in selected deposit money banks in Maiduguri metropolis, Borno State, Nigeria.

## **Conceptual and Theoretical Framework**

### **Concept of Monetary Reward**

Monetary Reward is Financial Incentives that an employee earns as a result of good performance. These rewards are aligned with organization goals when an employee helps an organization in the achievement of the goals. According to Merchant (2007), monetary reward generally awarded for a job well done and is often something that the employee can strive for. He also asserts that monetary rewards tend to be more effective when the employee is actually motivated by cold, hard cash or additional form of payment that therefore money is an important form of reward. He further stated that a basic condition of organisation to satisfy and fulfil employee's needs at work is through monetary rewards. In a nutshell monetary reward is effectively used to attract and retain competent employees. Employees are highly driven when the means of financial incentives is in place. It boost the morale of the employees to become more efficient, effective, result oriented and passionate to deliver expectation and perhaps beyond expectations in every given task. Similarly, in Nigerian banking sector, employees want to be motivated by the organizations they work for, while the organizations on the other hand need

motivated workforce. In the same vein, Armstrong (2007), suggests that monetary reward is a motivator because it fulfils needs. It is a factor which needed to satisfy the basic needs of survival and security. This is further supplement from the views of Agarwal (2010), who stated that money is still the most vital motivating factors for employees. Agarwal agrees that non-monetary rewards motivate individuals but, after a certain point in a career, money seem to have greater importance. Most banks, in their deliberate efforts to influence the performance of their employees however initiates a system of monetary rewards such as pay for performance bonus, timely promotion, profit sharing, employee stock option and other types of financial rewards that increases an employee's compensation. Therefore, monetary reward are the most effective reward system used in Nigerian Banking Industry to attract and retained competent employees.

### **Concept of Employee Retention**

Employee retention involves taking measures to encourage employees to remain in the organization for maximum period of time (Griffeth & Hom, 2001). In Nigeria, organisations are facing a lot of problem on employee retention these days, having knowledgeable people for the job is essential for an organization. Similarly, there is no dearth of opportunities for a talented employee. There are many organisations that are looking for such employees. If an employee is not contented by the work he's doing, he may switch over to some other more suitable work. However, in today's competitive environment it becomes very essential for bank to retain their employees. The reason may be personal or professional (Fombrum & Shanley, 1990).

Furthermore, Zineldin (2000), defined retention as an obligation to continue to do business or exchange with a particular organization on an ongoing basis. He also asserts that organizations today take great care in retaining its good and valuable employees as they are increasingly becoming more difficult to find. In the same vein, Walker (2001), opined that managing and retaining promising employees is an important means of achieving competitive advantages among organisations. He further stated that most important demand of management today in any organization is to keep the most crucial and dynamic human resource, it is not important to see who the organisation hires but what counts, is that who are kept in the bank. According to Acton (2001), opined that human resource department plays an active role in

retaining its employees. He asserts that it is a responsibility of human resource department to motivate and retain competent employees.

### **Concept of Performance Bonus**

Performance bonus is a form of additional compensation paid to an employee's as a reward for achieving specific goals or hitting predetermined targets. According to Gomez (2007), employee performance is determined by targets met, output, output period, efficiency level, or cost saving behavioural attributes such as punctuality, discipline and outstanding service delivery standards. Performance bonus is a highly effective strategy for increasing motivation and retention among bank employees. Furthermore, March (2003), stated that the ability of management to properly implement performance based rewards practices will strongly attract, retain and motivate employees to achieve the objectives of the organizational reward system.

Similarly, Finkle (2011), asserts that banks use cash bonus to reward their employees performance during the year under appraisal would be used for measuring performance. However, banks used different tools to assess the performance of their employees. For instance setting standard for performance measurement, that is 50% to 60% of the task to be accomplished before awarding the bonus, secondly performance measurement based on performance evaluation or appraisal will be used to assess the performance of employees for many decade ago and proved to be effective. But there is also the unspoken expectation that this bonus will be a factor in motivating employees' performance next year as well. On the other hand, employees who receive a miserly bonus and it reflects how the organization assessed their performance might consider improving next year. Torrington and Hall (2006), assert that performance bonus is now on the rise in many organisations because managers want to link performance to reward. When employees are rewarded, they get work done. Thus when employees surpass their target or exceed their standard they should be rewarded immediately as a way of motivating them. By so doing, employees directly connect the reward with behaviour and higher performance they have attained. While performance bonuses can be very effective, banks must be extremely careful in the implementation of this technique. Because these bonuses are not given in standard amounts or frequencies, some employees could make a case for

favouritism if the bonuses are not well planned. Therefore award these bonuses with caution and with an explanation in line with the policy of the banks. In the same light, Taylor (2008), observed that employees may be more motivated to improve performance when bonus pay is the carrot. Furthermore, by awarding more bonus pay which is in cash rather than recognition, banks would have more flexibility in managing cash flow, by moving to higher percentages of bonus pay, banks may be able to increase goal attainment through better employee performance. While generating greater cash flow flexibility, which means that bonus pay can be particularly advantageous for an organisation trying to mitigate expenditures during fluctuating organization business cycle. In commercial banks performance bonus are used as a financial rewards and intended to be motivational tool that encourage employees to keep goals in mind and take action in their everyday work to help the bank achieve those goals. In the same vein, Armstrong and Reilly (2011), opined that performance evaluation as a means of measuring performance are good medium through which both the employer and employee can benefit. From an employer's perspective, performance evaluation allows the management to assess the investment made on the employee while they are performing with respect to the organization's goals and objectives. In contrast, employees can also assess their performance and deduce where they stand in terms of ideals level of performance. Performance based rewards are considered to be a critical and effective tool not only to attract and retain talented employees but to keep them motivated. In the same light, Pinder (2014), also emphasised the need for an organization to carefully set reward system that fairly appraises the performance of the employees at all levels, and in return provides them rewards in accordance with their needs and expectations in order to achieve desired performance of employees with high efficiency and effectiveness, management most develop a sense of mutual gain among employees in order to keep them motivated enough to keep performing at optimal level. This mutual gain motivate the employees to perform higher because they can contribute to organizational success by excelling at their job in achieving predetermined target which in turn lead to bonus based on performance. Furthermore, Zhu (2014), observed that employee performance appraisal is a system where by the senior level management in an organization evaluates the overall quality and level of work carried out by an employee's based on

their performance, the employees are either rewarded or instructed to perform better. However, the rationale behind performance bonus is that it motivates employees to work harder, and rewards those who make a greater contribution to the organization's goals. This should lead to efficiency savings. Also, Robert (2007), opined that performance bonus programs are used to motivate employees and it is generally accepted that they have a positive impact on employees' performance. This can also help to attract and retain key staff, and allocate scarce resources to focus on performance rather than entitlement. He also stated that rule eligibility and for pay out of a bonus must be very clear, create a motivation environment and limit risk. Hakala (2008), stated that in the field of human resource management, different scholars suggest the following indicators for measuring employee performance and they include: quality that can measure by percentage of work output that must be redone or is rejected; customer satisfaction that can be measured by the number of loyal customers and customers' feedback. Also, timeliness, measured in terms of how fast work is performed by the employee when given a certain task; absenteeism/tardiness observed when employee absent themselves from work; and achievement of objectives measured when an employee has surpassing his/her set targets, him/her is then considered to have performed well to achieve objectives. Furthermore, Torrington (2008), clearly stated that measurement of individual performance within the organizations has traditionally centered on assessing performance and allocating reward, with effective performance seen as a result of the interaction between individual ability and motivation. He also asserted that increasingly being recognized that planning and an enabling environment have a critical effect on individual performance, performing goals and standards, appropriate resources, guidance and support from the managers all being central. Also, Hasnam and Pierskalla (2012), while conducting a study on performance related pay in public sectors such as public administration, psychology and economic in developing countries or OECD setting concluded that other changes such as differentiation (i.e. creating pay differences) have been accompanied with pay for performance for the servant doing the same job based on the needs to attract and retain the qualified staff as well as to keep the delegation of pay setting authority away from a central civil service agency to ministries, agencies and department. Hasnam and

Pierskalla also asserted that the linkage between performances related pay, pay differentiation and delegation remain under explored.

Therefore, employees must have an understanding of the level of performance most likely to result in receiving a bonus. Similarly, when employees are rewarded with monetary incentives (cash bonus), they tend to be committed to their job and exhibit high level of retention.

### **The Expectancy Theory**

This theory was developed by Victor Vroom (1964). The theory states that behaviour is a result from conscious choices among alternative. The purpose of choice is to maximise pleasure and minimize pain. Therefore, he realized that an employee's performance is based on individual factors such as personality, skills, knowledge, experience and abilities. Similarly valence is an emotional orientation which employee holds with respect to outcome (rewards). The depth of the want of an employees for extrinsic (money, promotion, free time benefit) or intrinsic (satisfaction) rewards management must discover what employee appreciate. Instrumentality states that perception of employees whether they will actually receive what they desire, even if it has been promised by a manger. Management must ensure that promised of rewards are fulfilled and that an employees are aware of that. However, expectancy theory belief that, employees are motivated to perform at a high level if they think that high performance will lead to or instrumental for attaining outcomes such as pay, job security, interesting job assignments, bonuses or a feeling of accomplishment. For many employees, pay is the most important outcome for working. For others, a feeling of accomplishment or enjoying one's work is more important than pay.

Furthermore, high motivation results from high levels of expectancy, instrumentality and valence. If any one of these factors is low, motivation is likely to be low. No matter how tightly desire outcomes are linked to performance, if a worker think it is practically impossible to perform at a high level, then motivation to perform at a high level is exceedingly low. Similarly, if a worker does not think that outcomes are linked to high performance, then motivation to perform at a high level is low. In addition, managers promote high level of instrumentality when they clearly link performance to desired outcomes. Therefore, managers must clearly communicate this linkage to subordinate by making sure that the outcomes available in an organisation



are distributed to organizational members (employees) on the basis of their performance. In this way they create a motivational force, such that the employees will act in a way that brings pleasure and avoids pain.

### **Herzberg's Two-Factor Theory**

This theory was postulated by Herzberg (1959). According to the theory there are two factors that exist related to motivation i.e. hygiene and motivator factors. Hygiene factors consist of job related factors that needed to be presented to ensure a reasonable level of satisfaction. Banks are expected to provide job security, timely promotion, payment of wages and salaries fringe benefits, quality supervision as well as working condition. If these factors are not taken care of properly by the banks, it leads to job dissatisfaction. While motivator factors are based more on employees' needs and lead more to job satisfaction; element such as opportunity for growth, achievement, recognition and responsibilities fall into this factors. Truthfully neither motivational or hygiene factors should be absents in the banks as both plays a pivotal role in motivating employees: By incorporating motivational factors in the banks to ensure that proper incentives exist so that employees are motivated. By incorporating hygiene factors in the banks, employees' reduce these de-motivating elements that are detrimental to satisfaction and ultimately productivity falling to incorporate both characteristics leads to suboptimal satisfaction and performance. As banking environment continues to remain volatile due to macro-economic factors such as government policies and competitors actions, as a matter of policy banks are expected to give more emphasises to extrinsic rewards to increase the performance of their employees.

Furthermore, from the stated theories, Herzberg's two factor theory is most relevant. The theory stated that extrinsic (financial rewards) are driven by several factors, such as cash bonus for outstanding performance, timely promotion for hard working staff and sharing of organization's profit to all cadres of staff, instead of distributing solely to managers and owners of the organizations in other to attract and retained skilled and experienced workforce. Therefore, study adopted Herzberg's two factor theory; this is in line with the contribution made toward employee's jobs satisfaction and performance which in turn lead to employee retention in the study area.

## Methodology

This research work is restricted to the six (6) selected deposit money banks in Maiduguri Metropolis, Borno State, Nigeria. Six Commercial Banks were selected out of seventeen (17) Deposit Money Banks using simple random sampling technique. These banks are (EcoBank Plc, Fidelity Bank Plc, FCMB Plc, First Bank of Nigeria Plc, Access Bank Plc and Zenith Bank Plc) was selected based on financial strength of the banks. The population of this study was (198) employees. The sample size is determined based on a formula developed by Yamani (1967). I.e.  $n = N / (1 + N(e^2))$  where  $n$  = sample size,  $N$  = population,  $e$  = level significance (5%), 1 = constant. From the data given,  $N = 198$ ,  $e = 5\%$ ,  $n = 198 / (1 + 198(0.0025)) = 132$ . Questionnaires were distributed to 132 respondents and 129 questionnaires were retrieved. The data was analysed with the aid of multiple regression analysis using statistical package for social sciences (SPSS) and model was specified in line with the hypotheses.

## Testing of Hypothesis

Ho<sub>1</sub>: There is no significant effect of performance bonus on employee retention in selected Deposit Money Banks in Maiduguri Metropolis.

**Table 1.1 Model Summary**

<i>Model</i>	<b>R</b>	<b>R square</b>	<b>Adjusted square</b>	<b>R Std. Error of the Estimate</b>
1.	.670 <sup>a</sup>	.542	.0509	2.9247

Source: SPSS Version 20.0

R-square had a value of .670 (67%) and adjusted R-square value is .0509 (appropriately 5% percent of the dependent variable was explained by the independent variables).

a. Predictors (constant). Performance bonus

b. Dependent variable. Employee Retention

**Table 1.2 Regression Coefficients<sup>a</sup>**

<i>Model</i>	<b>Unstandardized coefficient</b>		<b>Standard Coefficient</b>	<b>T</b>	<b>Sign.</b>
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
<i>Constant</i>	19.768	1.987		19.683	.000
<i>Performance Bonus</i>	.398	.297	.086	1.3872	.000

**Source:** Field Survey, 2019

Table 1.2 shows that standardized beta weight of r correlation, and part correlation between profit sharing and employee retention with a probability (p- value < 0.05) which implies that performance bonus has positive significant effect on employee retention in selected deposit money banks in Maiduguri Metropolis, Borno State, Nigeria.

### Discussion of Results

This study revealed that R- square value of (.670) which represents 67% by which the variables explain the model. However, T value of the coefficient of multiple regression is 1.3872. Therefore, the Beta value of coefficient which represent 86% of regression coefficient in response to p-value of the regression are all significant at level of (0.000) which is less than alpha value of (0.05), that is  $p < 0.000 < p < 0.05$ . This concludes that null hypothesis is rejected and the result shows that, there is significant effect of performance bonus on employee retention in selected deposit money banks in Maiduguri Metropolis, Borno State, Nigeria.

### Conclusion

The study concludes that, there is a growing needs for organisations to retain their employees with the increase in competitive business environment, and finding of the study revealed that monetary reward are crucial in influencing employees decision to either leave or remain in the banking sector, distribution of the portion of profits generated by the bank to employees is a major motivators that can keep the employees in their jobs.

### Recommendations

Management of the bank should endeavour to shows the present of fairness in their monetary rewards as employees are agents who are affected by the portion of the performance bonus by the bank. Similarly, management should also try as much as possible to adopt good and positive retention strategies to boost the morale of the workers toward performance. This guarantees the retention of employees in deposit money banks in Maiduguri Metropolis, Borno State, Nigeria.

### References

- Acton, T.W. (2003). Training the Knowledge Worker. *International Journal of Business and Innovation Research*. 27 (4): 137-146.
- Armstrong, M. (2007). A Handbook of Human Resource Management Practice. 10<sup>th</sup> edition. London and Philadelphia: Kogan Page Limited.

- Agrawal, S. (2010). *Motivation and Execution Compensation, the LUP Journal of Corporate Governance, No. 9, 27- 46*
- Bratton, J. & Gold, J. (2006). *Human Resource Management Theory and Practice*. U.K: Macmillan, publisher.
- Finkle, T.A. (2011). Corporate Entrepreneurship and Innovation. *Journal of Entrepreneurship Education. 59 (10), 1-12.*
- Fombrum, C.J & Shanley, M. (1990). What's in a name: Population-building and corporate strategy. *Academy of Management Journal, 1 (3), 233-258.*
- Gomez, M. & Davis, B. (2007). *Management*. McGraw Hill, New York.
- Greenberg, J. (1996). *The quest for justice on the job*. Thousand Oaks, CA: Sage.
- Griffeth, R. & Hom, P.W. (2001). *Retaining valued Employees*. Thousand Oaks, CA: Sage.
- Hakala, D. (2008). *How to Measure Employee Performance, 16 Ways*. HR World Newsletter. New York, U.S.A.
- Hasnam, Z. & Pierskalla, H. (2012). *Performance Related Pay in the Public Sector, a review of Theory and Evidence*. The World Bank, East Asia and Pacific Region, poverty reduction and economic management sector department. WSP 6043, 1- 53 Retrieved.
- Long, R & Fang, T. (2007). *How Strategic Is Strategic Pay?. The case of employee profit sharing*. Proceeding of the Administration Science Association of Canada.
- March, J.G. & Simon, H.E. (2003). *Organizational Behaviour*. New York: Wiley.
- Merchant, V.S. (2007). *Management Control System, performance measurement, Evaluation and Incentive*, New York: Prentice.
- Patrick, S & Allen, J. (2007). *Measuring employee Motivation in a Public Sector Organization. Journal of Human Resource Management, 1 (4), No. 3.*
- Pierce, J.L. & Dirks, K.T. (2001). *Toward a theory of psychology ownership in organization. Academy of Management Review, 26, 298-310.*
- Pinder, R. M. (2003). *Motivation and Work Behaviour* Seventh Edition. McGraw Hill.
- Poutsma, E. & Nijs, W. (2003). *Broad Based Employee Financial Participation in the European Union. Journal of Human Resource Management, 14 (6), 143-147.*
- Robert, M & Keith, W. (2007). *The Impact of varying Types of Performance Related Pay and Employee Participation of Earning*. *International Journal of Human Resource Management, 1 (8), No. 6, Pp. 14- 15.*
- Torrington, D. L. & Rampton, L. H. (2008). *Human Resources Management*. New York: Melboune Press.
- Taylor, F.W. (1911). *Principles of Scientific Management*, New York: Harper.
- Taylor, O. P. (2008). *Pay Reward System Management and Staff Performance in Nigeria: Journal of Business Administration 1 (1).*
- Walker, J.W. (2001). "Perspectives" *Human Resource Planning. Academy of Management Review. 24 (1), 6-10.*
- Yamane, T. (1967). In Asuquo, A. (2012). *African Journal of Social Sciences, 1 (2), No. 4.*
- Zineldin, M. (2000). *Total Relationship Management. International Journal of Business and Management, 1 (1), Pp. 1-17.*
- Zhu, P. K. (2008). *Workforce Retention and Pay and Reward Practices in America's Best Hospitals. World at work Journal, second Quarter, 17 (2), 16- 29.*