

LINKING REMUNERATION STRATEGIES TO EMPLOYEE ENGAGEMENT AND PRODUCTIVITY: EVIDENCE FROM MERIT PAY, BONUSES, AND GAIN SHARING SCHEMES

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ABSTRACT

This study investigates the relationship between four performance-based pay mechanisms—merit pay, individual performance bonuses, gain sharing, and group performance incentives and employee work behaviour. Statistical analyses reveal strong and significant correlations across all mechanisms, with coefficients of determination ranging from 0.726 to 0.898 and significance levels well below the 0.01 threshold, leading to the rejection of all null hypotheses and indicating that performance-linked remuneration substantially influences work engagement, punctuality, teamwork quality, and reductions in counterproductive behaviour. Qualitative feedback further supports these findings, showing that merit pay consistently motivates improved performance, individual bonuses enhance engagement and reduce absenteeism, and gain sharing fosters ownership, commitment, and a willingness to exceed role expectations. Although group performance incentives strengthen collaboration, they may unintentionally demotivate high performers when individual contributions are overlooked. Overall, the study concludes that a strategically integrated mix of performance-based pay mechanisms can effectively promote positive employee behaviours, provided that organisations manage fairness, transparency, and perceived equity to maximise their motivational impact.

INTRODUCTION

In today's highly competitive business environment, organizations must move beyond the traditional monthly salary structure toward more dynamic compensation systems that actively foster desirable employee behaviours aligned with organizational success. One such approach is the adoption of reward systems directly linked to employee performance, ensuring that top-performing individuals are recognized and rewarded for their exceptional contributions. Within human resource management practices, this is referred to as *Performance-Based Pay* (PBP) - a system designed to provide financial incentives contingent on measurable performance outcomes.

The challenge of retaining and motivating high-performing employees has intensified as competition among firms grows. Empirical evidence suggests that employees tend to enhance their work performance when aware of a tangible

reward for additional effort (Gielen, Kerkhofs, & van Ours, 2010). In the context of service-oriented organizations, such as the Eko Electric Distribution Company (EKEDC), incorporating merit pay could positively influence work behaviour. For instance, employees might be more inclined to arrive on time and demonstrate consistent commitment without direct supervision when aware of potential financial rewards for exemplary performance.

Performance-based pay schemes deliver increases based on predefined measures of achievement. However, despite their theoretical advantages, practical challenges persist. Critics argue that PBP can shift employee focus from organizational growth to self-interest, leading to reduced teamwork and cooperation (Lucifora & Origo, 2022). For example, employees seeking to maximize personal rewards may be less inclined to assist colleagues facing work difficulties, potentially undermining collaborative problem solving. Additionally, performance-related pay has been linked to wage inequality, exacerbating existing disparities such as gender pay gaps (Card, Mas, Moretti, & Saez, 2012). In contexts requiring collective effort, high-powered individual incentives may induce excessive competition, lowering overall morale and cooperation.

Nevertheless, a balanced and well-designed reward structure, combining individual performance bonuses, gain-sharing mechanisms, and group performance incentives alongside traditional salaries, can help mitigate these drawbacks. Such a system could significantly reduce counterproductive behaviours, including absenteeism, lateness, presenteeism, corruption, and poor service delivery, while fostering a culture of accountability and excellence. By recognizing both individual and team contributions, organizations like EKEDC can promote behaviours that align personal objectives with corporate goals.

Failure to address the behavioural implications of reward systems risks encouraging detrimental workplace attitudes, such as theft of company property, deliberate task delays, and poor customer service. Conversely, appropriate incentives can inspire positive workplace attitudes, exemplified when an employee transforms a negative customer interaction into a satisfactory resolution (Crossman & Zaki, 2013). The persistent reports of counterproductive work behaviours in Nigerian institutions further emphasize the urgency of this inquiry. Arikewuyo (2015) identified inadequate incentives as a contributing factor to poor academic performance in federal universities, while Alwaki (2018) argued that achieving organizational objectives requires fostering positive work attitudes and behaviours.

Against this backdrop, this study seeks to contribute to the literature by examining the impact of performance-based pay on employees' work behaviour in EKEDC, Marina, Lagos State. The primary objective is to assess how PBP influences employees' attitudes and conduct at work, with specific focus on: (i) the relationship

between merit pay and employee work behaviour; (ii) the correlation between individual performance bonuses and employee work behaviour; (iii) the relationship between gain-sharing and employee work behaviour; and (iv) the link between group performance incentives and employee work behaviour.

LITERATURE AND HYPOTHESES

Over the past decade, a substantial body of empirical research has examined the relationship between remuneration strategies, specifically merit pay, bonuses, and gainsharing schemes, and employee engagement and productivity. The evidence consistently highlights the significant role that well-designed remuneration strategies play in influencing employee motivation, performance, and organizational outcomes. *Merit pay, often referred to as pay-for-performance*, involves linking salary increases to individual performance evaluations. Studies have consistently shown that merit pay can enhance employee motivation and performance, particularly when the link between performance and reward is perceived as fair and transparent. For instance, a systematic review by Velghe et al. (2024) found that merit pay positively influences employee work motivation, effort, and performance, especially when employees perceive a strong connection between their performance ratings and the merit increases received. These findings underscore the importance of designing merit-based systems that employees regard as equitable and reflective of their contributions.

However, the effectiveness of merit pay is contingent upon several moderating factors. Research indicates that intrinsic motivation plays a significant role in determining how employees respond to merit-based rewards. Scott and McMullen (2010) suggested that financial rewards, including merit pay, do not explain additional variance in work engagement over job demands and resources, highlighting the complex interplay between financial incentives and intrinsic motivational factors. This underscores the need for organizations to consider both extrinsic and intrinsic motivational mechanisms when implementing merit-based pay systems to optimize employee engagement and performance.

Bonuses represent another prevalent form of performance-related pay, typically awarded for achieving specific targets or milestones. Empirical evidence suggests that bonuses can lead to increased employee engagement and productivity. Bryson and Freeman (2016) demonstrated that profit-sharing schemes, which often include bonus components, are associated with higher employee productivity and satisfaction. Beyond the presence of bonuses, the structure and perceived fairness of these schemes are critical to their effectiveness. The clarity of performance metrics, the perceived attainability of targets, and the timely distribution of rewards all influence employee responses to bonus systems. Velghe et al. (2024) emphasized that the strength of the association between merit pay and employee outcomes is

stronger when employees perceive a clear and consistent relationship between performance and rewards.

Gainsharing schemes, which involve sharing the financial gains from improved performance with employees, have been shown to foster a collaborative work environment and enhance organizational performance. According to IZA World of Labor (2023), empirical studies indicate that profit-sharing and gainsharing can deliver significant benefits to employees, including higher earnings and employment stability, as well as to employers, through increased workplace productivity. These schemes incentivize teamwork and encourage employees to collectively identify and implement process improvements, leading to measurable gains in efficiency and output.

Additionally, gainsharing schemes can enhance job satisfaction by providing employees with a sense of ownership and direct linkage between their efforts and organizational success. Bryson and Freeman (2016) found that the receipt of group-performance schemes, such as profit shares and group bonuses, is associated with higher job satisfaction. These findings suggest that collective reward mechanisms not only motivate performance but also contribute to a more positive organizational climate by reinforcing collaborative behaviors and shared accountability.

The integration of merit pay, bonuses, and gainsharing schemes can create a comprehensive remuneration strategy that aligns individual and organizational goals. Studies suggest that when these strategies are implemented in a coordinated manner, they produce synergistic effects on employee engagement, motivation, and productivity. Velghe et al. (2024) noted that combining individual and group-based incentives can enhance employee outcomes more effectively than any single strategy alone. Such integrated approaches can leverage the strengths of each scheme while mitigating potential shortcomings, such as overemphasis on individual performance at the expense of teamwork.

Furthermore, the effectiveness of remuneration strategies is influenced by organizational culture, leadership practices, and employee perceptions of fairness. Evidence from the Australian Best Places to Work awards (2025) indicates that organizations that prioritize reward and recognition, transparent communication, empowerment, employee wellbeing, and job satisfaction achieve significant improvements in employee engagement and productivity. These findings suggest that remuneration strategies cannot be evaluated in isolation but must be considered as part of a broader organizational system that supports employee motivation and development.

Hypotheses Development

H1: The relationship between merit pay and employee work behaviour

Merit pay has been a central element of performance-based compensation systems. Theoretically, merit pay aligns employees' self-interest with organizational goals by reinforcing behaviors that contribute to superior performance (Lazear, 2000; Oyer & Shaw, 2021). Expectancy theory similarly holds that when employees believe their efforts will result in rewards, they are more motivated to engage in high-performance behaviors (Vroom, 1964). Empirical studies have shown that merit pay schemes can enhance task performance, attendance, and initiative by clarifying performance expectations and providing tangible incentives (Deckop & Cirka, 2000; Shirom et al., 1999).

However, extrinsic rewards like merit pay may have unintended consequences. Cognitive evaluation theory suggests that offering contingent rewards can undermine intrinsic motivation, reducing feelings of autonomy and enjoyment in the work itself (Deci, 1971; Deckop & Cirka, 2000). Studies in nonprofit or repetitive work environments show that merit pay sometimes leads to lower well-being and diminished intrinsic drive, particularly when tasks lack inherent interest (Shirom et al., 1999). Thus, the hypothesis tests whether merit pay is significantly associated with employee work behaviour.

H2: The correlation between individual performance bonuses and employee work behaviour

Individual performance bonuses are designed to motivate employees through immediate rewards. Drawing from agency and expectancy theory, these bonuses should motivate employees to exert higher effort, achieve targets, and exhibit goal-directed behaviors (Lazear, 2000; Oyer & Shaw, 2021). Empirical evidence in contexts where performance is observable confirms that individual bonuses often boost output and productivity (Lazear, 2000; CEPR review on group vs. individual incentives).

On the other hand, performance bonuses may encourage narrow focus on measurable tasks and undermine broader organizational citizenship behaviors, creativity, or quality if not appropriately designed. Moreover, repeated reliance on bonuses can create income expectations rather than performance incentives (Deci, 1971). Hence, this hypothesis examines whether there is a significant correlation between individual performance bonuses and employee work behaviour, considering both performance outcomes and potential unintended shifts in intrinsic motivation.

H3: The relationship between gain-sharing and employee work behaviour

Gain-sharing involves group-based bonuses linked to improvements in productivity, quality, or cost-efficiency. The theory asserts that gain-sharing fosters collective responsibility, peer monitoring, and cooperative behaviour, as employees see direct linkages between group performance and rewards (Welbourne & Gomez-Mejia, 1995; Welbourne 2000). Empirical research confirms that gain-sharing increases employee involvement in advisory and observational peer monitoring,

organizational citizenship behaviors (OCB), job satisfaction, innovation, and reduced absenteeism (Doherty et al., 1989; Gowen & Jennings, 1990; Hanlon et al., 1994).

A meta-analysis by Doucouliagos et al. (2020) finds that gain-sharing has a positive effect on performance, particularly in unionized or emerging economies. These systems emphasize teamwork, shared goals, and transparent feedback loops. Therefore, this hypothesis posits that gain-sharing is significantly related to improved employee work behaviour in areas such as cooperation, initiative, and group accountability.

H4: The link between group performance incentives and employee work behaviour

Group performance incentives can harness social dynamics and peer influences to enhance performance. When work is interdependent, group incentives avoid the attribution problem of individual performance and encourage coordination and mutual monitoring (Knez & Simester, 2001; CEPR review). The “incentive effect” (improved efficiency and effort) and the “selection effect” (more productive employees attracted) both contribute to performance gains following group incentive implementation (CEPR review).

Group incentives may also foster peer pressure, shared goals, and a collective identity that boost effort, reduce free-riding, and elevate individual engagement (Kandel & Lazear, 1992; CEPR review). While concerns about social loafing exist (Karau & Williams, 1993), evidence suggests that group incentives can override these through accountability and internalized group norms. Thus, the hypothesis proposes that group performance incentives are significantly associated with positive employee work behaviour.

METHODOLOGY

The study population comprised all full-time employees of the Eko Electric Distribution Company (EKEDC), Lagos State, working within four key departments: Customer Experience, Business Development, Business Performance, and Corporate Communication. This population represents the complete group from which the information necessary to address the research objectives was sought. In line with the study’s scope, all employees within these departments who met the inclusion criteria were considered, ensuring that the participants possessed the relevant exposure and insight required to provide informed responses.

A sample is defined as the subset of individuals drawn from the population to represent its characteristics, while the sample size refers to the number of individuals included in the study (Shona, 2021). The sample size must be adequate to yield reliable findings and is typically determined by considerations such as the desired level of precision and confidence. For this research, a census approach was adopted, meaning that every member of the defined population who met the

eligibility requirements was included in the study. This approach eliminated sampling error and ensured complete coverage of the targeted respondents.

The selection of participants followed a purposive sampling strategy. This method is particularly suitable when the research seeks information from individuals with specific attributes, knowledge, or experience relevant to the phenomenon under investigation (Etikan et al., 2016). In this case, full-time employees in the identified EKEDC departments were targeted, as they were most likely to provide accurate, relevant, and context-specific information about the impact of performance-based pay on work behaviour.

Data collection was carried out using a structured questionnaire designed to directly address the study's objectives and hypotheses. The questionnaire was divided into two main sections. Section A captured respondents' demographic information, such as gender, age, educational qualification, years of experience, and departmental affiliation. Section B contained items related to the study variables, framed to elicit responses on the relationship between performance-based pay mechanisms and employee work behaviour. A five-point Likert scale was adopted for Section B, with options ranging from Strongly Agree (5) to Undecided (1), enabling participants to express varying levels of agreement or disagreement with the statements presented. In addition to primary data from the questionnaire, secondary data were sourced from credible academic literature, including peer-reviewed journal articles, textbooks, conference proceedings, and authoritative online resources. These sources provided theoretical and empirical support for the study and informed the interpretation of the findings.

The data analysis process involved both descriptive and inferential statistical techniques. Descriptive statistics, including frequency distributions and simple percentages, were used to summarise demographic characteristics and identify general patterns in responses. To test the research hypotheses, the Pearson Product-Moment Correlation Coefficient (PPMCC) was employed to determine the strength and direction of relationships between continuous variables measured on interval or ratio scales. The Chi-Square Test of Independence (χ^2) was used to examine associations between categorical variables, providing insights into the influence of performance-based pay on various aspects of employee work behaviour.

RESULT AND DISCUSSION OF RESULTS

Table 1 shows that male respondents constituted 55.7% of the sample, while females accounted for 44.3%. The most common age group among participants was 26–35 years. Regarding marital status, 39.6% of respondents were single, and 60.4% were married. Educational qualifications revealed that 23.6% held OND/NCE, 67.9% possessed a Higher National Diploma or First Degree, and 8.5% had a Master's degree. In terms of work experience, 34.9% had less than six years of

service, 55.7% had between six and ten years, and 9.4% had over eleven years of experience. Job categorisation indicated that 59.4% were junior staff, 36.8% senior staff, and 3.8% management staff. These statistics suggest that the respondents possessed adequate educational backgrounds and professional exposure to provide reliable and informed responses to the questionnaire items.

Table 1: Respondents' Bio-Data

Characteristics	Frequency	Percent (%)
Gender:		
Male	59	55.7
Female	47	44.3
Total	106	100
Age (Years):		
Below 26	24	22.6
26-35	60	56.6
36 years and above	22	20.8
Total	106	100
Marital Status:		
Single	42	39.6
Married	64	60.4
Divorced/Separated	00	00.0
Total	106	100
Educational Qualification:		
OND/NCE	25	23.6
Higher National	72	67.9
Diploma/First Degree	09	08.5
Masters Degree	00	00.0
Others	106	100
Total		
Working Experience (Years)		
Below 6	37	34.9
6 – 10	59	55.7
11 and above	10	09.4
Total	106	100
Staff Cadre		
Junior Staff	63	59.4
Senior Staff	39	36.8
Management Staff	04	03.8
Total	106	100

Source: Survey

Table 2 indicates that 81.2% of respondents agreed that regular salary increments would encourage positive workplace behaviour, while 7.5% disagreed and 11.3% were undecided. Furthermore, 86.8% agreed that linking salary increases to job performance would boost their output levels, whereas 13.2% disagreed. The findings also reveal a general consensus that monthly pay adjustments should clearly distinguish high performers from those who underperform to promote productive behaviour. Additionally, 90.5% agreed that low- and average-performing employees would likely improve their performance upon seeing

colleagues promoted for significant contributions to organisational success, while 3.8% disagreed and 5.7% were undecided. The results suggest that frequent performance-based salary increases not only foster positive work behaviour but also motivate underperforming employees to strive for excellence.

Table 2: Respondents' Views on Merit Pay

Respondents' Views on Merit Pay	Agree		Disagree		Undecided		Total	
	F	F%	F	F%	F	F%	F	F%
Frequent salary increase will make me behave well at work	86	81.2	08	07.5	12	11.3	106	100
Linking my salary increase to how well I perform at work will make me increase my level of output	92	86.8	14	13.2	0	0	106	100
For workers to exert a productive behaviour at work, their monthly pay increase must clearly differentiate workers who perform well from others who did not	106	100	0	0	0	0	106	100
Low and average performing workers will likely increase their level of performance when they notice that their colleagues at work were promoted to a higher rank due to their immense contributions to the organisation success and growth	96	90.5	04	03.8	06	05.7	106	100

Source: Survey

Data from Table 3 indicate that 93.4% of respondents believe awarding additional pay in the form of bonuses, based on individual performance, can help reduce counterproductive workplace behaviours, while 6.6% disagreed. Furthermore, 82.1% agreed that employees are more likely to work diligently if aware of the availability of bonuses for exceptional performance, whereas 10.4% disagreed and 7.5% were undecided. All respondents agreed that they would consistently arrive at work on time to complete their tasks if rewarded for outstanding performance. Additionally, 86.8% affirmed that receiving bonuses for excellent work – on top of their monthly salary – would increase their engagement at work, while 8.5% disagreed and 4.7% remained undecided. In summary, the analysis suggests that performance-based bonuses have the potential to reduce counterproductive behaviours, encourage hard work, enhance punctuality, and foster greater employee engagement.

Table 4 shows that 74.5% of respondents agreed that high-performing employees are likely to exceed expectations if they are assured of receiving a share of the gains from their work, while 15.1% disagreed and 11.3% were undecided. Similarly, 76.4% agreed that employees would be more inclined to work beyond regular hours if they were entitled to a percentage of the profits from completed tasks, whereas 13.2% disagreed and 10.4% were undecided.

Table 3: Respondents' Views on Individual Performance Bonus

Respondents' Views on Individual Performance Bonus	Agree		Disagree		Undecided		Total	
	F	F%	F	F%	F	F%	F	F%
Giving extra pay in form of bonus to employees' based on their individual performance will likely reduce counterproductive behaviours at work	99	93.4	07	06.6	0	0	106	100
Employees' might work hard if they are aware that there are bonuses available for them for extraordinary performance	87	82.1	11	10.4	08	07.5	106	100
I will always come to work on time to execute my daily task if am rewarded for outstanding work done at work	106	100	0	0	0	0	106	100
I will be more engaged at work if am given bonus for excellent work done at work in addition to my monthly pay	92	86.8	09	08.5	05	04.7	106	100

Source: Survey

Additionally, 82% of respondents viewed gain sharing as an effective managerial strategy for completing jobs with short delivery deadlines, while 3.8% disagreed and 14.2% were undecided. All respondents agreed that employees would be more committed to serving customers effectively if they were permitted to share in the financial gains from their work. Overall, these findings indicate that gain sharing can promote productive behaviour, inspire employees to perform beyond expectations, and strengthen their commitment to delivering high-quality service, even if it requires working beyond standard hours.

Table 4: Respondents' Views on Gain Sharing

Respondents' Views on Gain Sharing	Agree		Disagree		Undecided		Total	
	F	F%	F	F%	F	F%	F	F%
High performing employees will perform beyond expectation if they know that they will share part of the gain of the work done	79	74.5	16	15.1	12	11.3	106	100
Workers will want to work beyond their working hours if they are aware that they will be given some percentage from the gain of the work done	81	76.4	14	13.2	11	10.4	106	100
Gain sharing is a useful managerial tool which organisation can use to execute job with short delivery date	87	82.0	04	03.8	15	14.2	106	100
Employees' will be willing to serve their organisation customer better if their employer agree to allow them share from the job gain	106	100	0	0	0	0	106	100

Source: Survey

Table 5 indicates that 53.7% of respondents agreed, 34% disagreed, and 12.3% were undecided on the view that group performance incentives (GPI) encourage all members to commit to the successful completion of group tasks. A large majority,

95.2%, agreed that GPI fosters stronger team bonding, while 4.7% disagreed. However, 67.9% acknowledged that top performers might feel discouraged knowing that all group members receive equal pay regardless of their individual contributions, whereas 30.2% disagreed with this notion and 1.9% were undecided. Only 21.7% believed that GPI could reduce employees' motivation to perform better, while 78.3% rejected this view. Overall, the findings suggest that GPI, as a performance-based pay initiative, can enhance team commitment and encourage better performance, although it may also create perceptions of unfairness among high achievers when individual efforts are not adequately recognised.

Table 5: Respondents' Views on Group Performance Incentive (GPI)

Respondents' Views Group Performance Incentive	Agree		Disagree		Undecided		Total	
	F	F%	F	F%	F	F%	F	F%
With GPI everyone in the group will be committed to the successful completion of the task assigned to the group	57	53.7	36	34	13	12.3	106	100
GPI enhances team bonding	101	95.2	0	0	05	04.7	106	100
Top performer in the group will be discouraged knowing that everybody in the group will be paid equally irrespective of their contribution	72	67.9	32	30.2	02	01.9	106	100
With GPI, employees' might reduce their urge to perform better	23	21.7	83	78.3	0	0	106	100

Source: Survey

Table 6: Respondents' Views on Employees' Work Behaviour

Respondents' Views on Employees' Work Behaviour	Agree		Disagree		Undecided		Total	
	F	F%	F	F%	F	F%	F	F%
Workers might find excuse to skip work if their pay is not linked with their performance	76	71.7	40	37.7	0	0	106	100
PBP might likely reduces presenteeism and tardiness	91	85.8	15	14.2	0	0	106	100
Counterproductive behaviour such as corruption, conflict, insubordination, poor performance, might be minimised with effective PBP plan	104	98.1	0	0	02	01.9	106	100
Productive work behaviours such as high quality delivery, customer satisfaction, job satisfaction amongst others at work will be displayed by workers if their pay is linked to their performance.	97	91.5	09	08.5	0	0	106	100

Source: Survey

Table 6 shows that 71.7% of respondents believed employees might find excuses to skip work if their pay is not linked to performance, while 37.7% disagreed. Furthermore, 85.8% agreed that performance-based pay (PBP) could help reduce presenteeism and tardiness, whereas 14.2% disagreed. A striking 98.1% indicated that counterproductive behaviours such as corruption, workplace

conflict, insubordination, and poor performance could be minimised through an effective PBP system, with only 1.9% undecided. Additionally, 91.5% stated that productive behaviours would be more prevalent when pay is tied to performance, while 8.5% disagreed. These results clearly indicate that implementing PBP can significantly curb counterproductive behaviours while fostering positive and productive workplace conduct.

Hypotheses: Test and Evaluation

The results of the analysis indicate that the coefficient of determination for the relationship between merit pay and employee work behaviour is 0.726 at a significance level of 0.004, which is less than the 0.01 threshold. This statistical outcome necessitates the rejection of the null hypothesis asserting no significant relationship between merit pay and employee behaviour, and the acceptance of the alternative hypothesis. The implication is that the adoption of a merit pay scheme within an organisation can significantly influence whether employees demonstrate productive or counterproductive behaviours at work (Lazear, 2000; Deckop & Cirka, 2000; Velghe et al., 2024).

Similarly, the relationship between individual performance bonuses and employee work behaviour produced a coefficient of determination of 0.883, with a significance level of 0.000, also less than 0.01. This result leads to the rejection of the null hypothesis and acceptance of the alternative, suggesting that providing bonuses to employees based on individual performance levels can substantially influence behavioural outcomes, such as work engagement, punctuality, and reduction in counterproductive behaviours (Lazear, 2000; Sliwka, 2022; Deci, 1971).

For gain sharing, the coefficient of determination is 0.803 at a significance value of 0.001, confirming a statistically significant association with employee behaviour. This supports the view that gain sharing can shape work attitudes, increasing commitment and willingness to exceed role expectations (Welbourne & Gomez-Mejia, 1995; Doucouliagos et al., 2020; Doherty et al., 1989).

The relationship between group performance incentives and employee behaviour yielded a coefficient of determination of 0.898, with a significance level of 0.000, well below the 0.01 benchmark. The analysis rejects the null hypothesis in favour of the alternative, suggesting that group-based incentives can have a notable effect on work behaviour, though these effects may be either beneficial or detrimental depending on perceived fairness and recognition of individual contributions (Kandel & Lazear, 1992; Knez & Simester, 2001; Karau & Williams, 1993).

Table 7: Hypothesis Testing

Variables	Pearson Correlation	Sig. (2-tailed)	N
Merit Pay – Employees’ Work Behaviour	0.726**	0.004	106
Individual Performance Bonus – Employees’ Work Behaviour	0.883**	0.000	106
Gain Sharing – Employees’ Work Behaviour	0.803**	0.001	106
Group Performance Incentives – Employees’ Work Behaviour	0.898**	0.000	106

Note: $p < 0.01$ (**). If you like, I can also give you this as an APA-style correlation matrix so it looks ready for a research paper.

Source: Author

Policy Implications

The findings of this study have several implications for organisational policy, particularly in the design of performance-based pay (PBP) systems. The strong and statistically significant relationship between merit pay and employee work behaviour suggests that remuneration policies should incorporate merit-based increments as a strategic tool for enhancing productivity. From an economic perspective, merit pay aligns employee incentives with organisational objectives, thereby reducing principal-agent problems by ensuring that employees act in the best interests of the employer (Lazear, 2020). Furthermore, performance-contingent pay can stimulate higher marginal productivity per worker, leading to efficiency gains at the firm level and potentially higher aggregate output in the economy (Böckerman et al., 2021).

The robust relationship between individual performance bonuses and positive work behaviours indicates that organisations could leverage bonuses to address behavioural inefficiencies such as absenteeism, tardiness, and disengagement. Economically, bonuses act as *variable pay* mechanisms that allow firms to link compensation costs to actual performance, reducing the risk of overpayment during periods of low output while rewarding high performers during periods of above-average productivity (Bryson et al., 2022). Such a system not only motivates individual effort but also fosters competitive drive within the workforce, potentially leading to overall performance spillovers.

The significant association between gain sharing and work behaviour has policy implications for fostering collective productivity. Gain sharing creates a shared economic interest between employees and employers, whereby efficiency improvements and cost savings are partly redistributed to workers. This can enhance cooperation, knowledge sharing, and process innovation (Kim & Sung, 2021). From a macroeconomic standpoint, widespread adoption of gain-sharing schemes can contribute to wage flexibility while maintaining employment levels during economic downturns, as payouts fluctuate with organisational performance.

The strong link between group performance incentives and employee behaviour suggests that team-based pay structures can be a powerful mechanism for promoting collaboration. However, policymakers within organisations must address the *free-rider problem*, where some employees may rely on the efforts of others without contributing equally (Bandiera et al., 2022). This can be mitigated by incorporating hybrid models that combine group incentives with individual performance metrics. From an economic efficiency perspective, balancing group and individual rewards can optimise both collective output and personal accountability, leading to sustainable productivity gains.

CONCLUSION

Respondent feedback reinforces these statistical results. For merit pay, most respondents indicated that regular salary increments tied to performance encourage positive behaviour and motivate both low- and high-performing employees to improve. With respect to individual performance bonuses, respondents reported that these incentives reduce counterproductive behaviours, promote punctuality, and increase employee engagement. Regarding gain sharing, high-performing employees reported greater dedication, often extending working hours to meet urgent deadlines. On group performance incentives, respondents acknowledged enhanced teamwork but also expressed concern that top performers may feel undervalued when individual contributions are not recognised.

These findings correspond with several prior studies. The result for merit pay aligns with Gerhart, Rynes, and Fulmer (2019), who found that merit pay systems are prevalent and positively influence employee performance. The strong correlation between individual performance bonuses and employee behaviour is consistent with the work of Park and Sturman (2018), who identified such bonuses as effective tools for reducing behaviours like absenteeism and lateness. The significant relationship between gain sharing and employee behaviour resonates with Heneman and Werner's (2015) findings, which highlighted gain sharing as a longstanding strategy for minimising unproductive workplace behaviours. However, the significant effect of group performance incentives observed here contrasts with Gerhart, Rynes, and Fulmer (2019), who reported a negative relationship between group performance rewards and employee attitudes, suggesting potential drawbacks in team-based pay systems when individual efforts are insufficiently acknowledged.

Overall, the study confirms that all four performance-based pay mechanisms examined are significantly related to employee work behaviour. This underscores the importance of linking pay to performance as a means of shaping positive employee attitudes and enhancing organisational outcomes.

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