

EFFECTIVENESS OF PERFORMANCE BASED PAY IN RETAINING EMPLOYEES

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ABSTRACT

Performance Management Systems (PMS) have become a critical framework for aligning individual employee performance with overarching organizational objectives. Beyond evaluating past performance, PMS fosters continuous improvement, engagement, and development, enhancing productivity and motivation. Pay for performance is meant to solve the twofold problem of motivating high teacher performance while attracting and retaining good teachers under conditions where their effort or ability is not readily measured or observed. Performance metrics for university teachers typically fall into three core academic pillars, though their weights vary by institution type. Finally it concludes that as per Academic Performance of employees the management fix the pay and it leads to employee retention in the concern institution. Anyway hard-working, highly productive faculty members are rewarded financially for their extra effort.

Keywords: Performance based pay system, Employee retention, Academic activities, Research activities.

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INTRODUCTION

At high turnover rates, employees usually replace employees with short tenure, and his result in minimal performance. High turnover can lead to additional costs for human resource management and recruitment (eg, in time and effort to hire new staff and train them for their jobs).

High turnover can lead to additional costs for human resource management and recruitment (eg, in time and effort to hire new staff and train them for their jobs). In addition, turnover also increases the pressure on staff to work above and beyond their contract hours, which leads to mistakes and the moral decline of existing staff. Turnover can lead to negative job outcomes, for example, unethical behaviour, social loafing, and low job performance itself.

Low turnover can be an obstacle to performance for the organization because the company cannot diversify or offer good opportunities to its up-and-coming staff for promotion. This will also lead to failure in innovation and best practices in the organization, which can be learned from people

Employee turnover as a metric refers to people leaving the company, either on their own accord (voluntary turnover) or because of a decision made by the employer (involuntary turnover). Turnover rate calculations, on the other hand, include people hired during the time period for which the rate is being calculated.

REVIEW OF LITERATURE

Erlis Ermawati (2021) The Influence of Training, Career Development and Performance Management on Employee Competencies, Employee Performance and Organizational Capability. The purpose of the study is examining and analyze the effect of training, career development and performance management on employee competencies, employee performance and organizational capability. This research was conducted at an independent state institution which has the sole objective of achieving and maintaining the stability of the rupiah value. The data collection technique was carried out by distributing questionnaires. The results indicated that training and performance management had significant and positive effect on employee competencies, career development

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had no significant effect on employee competencies, employee competencies had a significant and positive effect on employee performance, employee performance had a significant and positive effect on organizational capability

Archana (2022) A Study on impact of Performance Appraisal System in Enhancing the Employees Productivity. The study was based on collecting the data from various sources like Primary data secondary data and structuring. The statistical tools used such as one-way anova test and descriptive test is used. The findings of the research survey discovered that objective and well-planned high performance of employee's productivity, retraining and consistent training are to be organized for the people involved in appraisal programme.

Jacques(2022) Performance Appraisal Effect on Compensation. This article tackles the performance appraisal part and its effectiveness when it comes to compensation. It starts by focusing on the importance of having a clear job description, evaluating employees according to job description using effective job evaluation method and performance appraisal selective methods according to the structure and the field of the company. Linking these tools to different ways of compensating employees and the effectiveness of such actions, problems, diagnostic approach and recommendation of Performance Appraisal (PA) process are covered in this study.

M Kavitha (2022) Green training and Development and its impact on employee performance . International Journal of Economic Perspectives,17(01),1-6. Green training has been identified as key to addressing independent barriers to environmental protection and promoting their acceptance in the workplace. This produces positive results for both organizations and employee. GHRM is an important tool through which an effective development strategy on the implication of the organization's sustainable plans could be made. GHRM has now started gaining its due attention from researchers all over the world because it provides benefits for organizations/companies, such as but not limited to environmental performance and sustainable performance and also motivates individuals to come up with green innovations and green ideas. Creativity also has a positive effect on an employee's commitment towards working in the environment at the workplace.

Vanshika Chauhan(2023) A Study of Impact of Performance Appraisal of the Employees in It Sector. The performance appraisal is one of the most important components of human resource

management because it influences important choices that are essential to a range of human resource activities and outcomes. The goal of this essay is to look into the relationship between employee engagement and opinions about how fair performance reviews are. Business leaders are aware that having a team that performs well in current economy with its unpredictable cycles is essential for growth and survival.

Shaikhah Alainati (2024) Investigating The Effectiveness Of Employees' Performance Appraisal System: Kuwait Case Study. Performance appraisal systems have become a crucial tool for organizations in evaluating and maximizing the effectiveness of their employees. It is the main goal of this study to find out how well the employees' performance appraisal system for employees works in Kuwait, paying special attention to how employees and managers feel about it in both private and public sectors.

Abdullateef Ameen (2024) The Assessment Of Effect Of Performance Appraisal Purposes On Employee Performance In Nigerian Civil Service. Employing far-reaching literature investigation, this paper offered a logic-based and empirically-based theoretical consideration to discourse the acknowledged research issues. The discoveries of this paper stressed that performance appraisal purposes do have an optimistic effect on the performance of the employee, and that performance appraisal purposes are a useful instrument that could enable organisations to achieve employee efficiency. This implies that, to improve the performance of the worker, organisations should give consideration to the provisions of the present work's research model.

TA Kavya, M Kavitha(2025) Influence of Organizational Culture on Employee Commitment: A Quantitative Study of Manufacturing Firms. 2025 International Conference on Emerging Engineering Technologies and Applications (IC-EETA).The organizational commitment is considered crucial for sustaining the productivity and it reduces the turnover in the manufacturing firms. The primary drivers that influence the commitment is the organizational culture, which shapes the behaviors, attitudes, and values within the workplace. In spite of the evident impact of the organizational culture on the employee performance, there exist a lack of the empirical studies that focus on the way in which various cultural dimensions affect the organizational commitment that especially in the manufacturing firms, which often have the unique structural and the operational characteristics. This study also employs the quantitative research design using a structured

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questionnaire based on the organizational Commitment Questionnaire (OCQ). A total of 300 employees is considered from five the manufacturing firms was surveyed. SPSS and the AMOS tends to evaluate the ...

INTEND OF THE STUDY

1. To assess the employees' perceptions of Performance based pay systems
2. To evaluate the impact of Performance based pay on Employee retention

HYPOTHESES OF THE STUDY

1. There is no significant difference among the employees' perceptions towards Performance based pay systems
2. There is no significant impact of Performance based pay on Employee retention

EMPLOYEES' PERCEPTIONS OF PERFORMANCE BASED PAY SYSTEMS

Performance Management Systems (PMS) have become a critical framework for aligning individual employee performance with overarching organizational objectives. Beyond evaluating past performance, PMS fosters continuous improvement, engagement, and development, enhancing productivity and motivation. The integration of sustainability goals within PMS creates a holistic approach to addressing global challenges, including climate change, inequality, and biodiversity loss. By leveraging structured goal-setting, feedback, and assessment processes, organizations achieve greater transparency, cost efficiency, and competitive advantage. This review examines the impact of sustainability performance management on organizational growth, highlighting its role in balancing financial objectives with ecological and social responsibilities. The findings underscore that sustainable performance management not only drives operational efficiency but also establishes a robust framework for achieving long-term success in a competitive global market.

Performance-Based Pay Systems (PBPS) directly link compensation to specific, measurable performance metrics. Employees' perceptions of these systems largely depend on fairness, goal clarity and trust in leadership. When implemented transparently, they boost motivation; if poorly executed, they trigger resentment and encourage burnout. Many employees appreciate PBPS plans that reward the acquisition of new, cross-functional skills, making them more adaptable and valuable in their careers. Individualistic pay systems can foster toxic internal competition, discouraging employees from helping their peers or

departments collaborate. The following table shows the impact of Performance based pay on Employee retention

The performance based pay factor covers seven variables and it subsequent influence over Employee retention is measured through linear multiple regression analysis. The results are shown below

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.732 ^a	.683	.670	3.942

a. Predictors: (Constant), P7, PL1, P2, P6, P4, P5, P3

Source –Computed data

In the above table persist that R=.732 R square = .683 and adjusted R square .670. It indicates that the performance based pay variable creates 68% variance over Employee retention. The cumulative influence of seven variables of performance based pay over Employee retention is formulated through the following one way analysis of variance.

Model	Sum of Squares	Df	Mean Square	F	Sig.
1	2399.621	7	342.803	22.065	.000 ^b
	6090.269	39	15.536		
	8489.890	39			

a. Dependent Variable: Employee retention
b. Predictors: (Constant), P7, PL1, P2, P6, P4, P5, P3

Source –Computed data

It was inferred in the above table that $f=22.065$ $p=.000$ are statistically significant at 5% level. This indicates to all the seven variables cumulatively responsible for Employee retention. The individual influence of all seven variables is clearly given in the following coefficient table.

Table 3 Coefficients(a)

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Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	20.254	1.131		17.901	.000
Academic Performance	1.735	.381	.258	4.558	.000
Research activities	1.333	.301	.178	3.832	.006
Extension activities	1.191	.448	.143	2.425	.041
Department activities	.127	.389	.029	.326	.744
Institutional activities	1.281	.394	.310	3.253	.001
Foreign Collaboration	1.783	.292	.289	2.679	.008
Outreach activities	1.105	.357	.251	3.097	.002

a. Dependent Variable: Employee retention

Source –Computed data

It was presented in the above table Academic Performance (Beta=.258, t=-4.558, p=.000) Research activities (Beta=.178, t=3.832, p=.006) Extension activities (Beta=.143, t=2.425, p=.041) Institutional activities (Beta=.310, t=3.253, p=.001), Foreign Collaboration (Beta=.289, t=2.679, p=.008) Outreach activities (Beta=.251, t=3.097, p=.002) are statistically significant at 5% level. This indicates that the as per Academic Performance of employees the management fix the pay and it leads to employee retention in the concern institution.

FINDINGS AND CONCLUSIONS

Performance-based pay (PBP) systems in universities link a portion of faculty compensation to specific, measurable achievements, primarily focusing on teaching, research output, and institutional service. These systems aim to incentivize excellence, increase accountability, and align individual faculty goals with broader university strategic objectives. Performance metrics for university teachers typically fall into three core academic pillars, though their weights vary by institution type. Finally it concludes that as per Academic Performance of employees the management fix the pay and it leads to employee retention in the concern institution. Anyway hard-working, highly

productive faculty members are rewarded financially for their extra effort.

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