

**Effect Of Non-Monetry Rewards On Employees' Retention With
Mediating Role Of Motivation: A Study Of Banking Sector**

Walid Raza

Research Scholar, Institute of Management Sciences, Peshawar

Email: waleed30804@gmail.com

Muhammad Atiq

Associate Professor, Institute of Management Sciences, Peshawar

Email: muhammad.atiq@imsciences.edu.pk

Owais Mufti

Professor, Institute of Management Sciences, Peshawar

Email: owais.mufti@imsciences.edu.pk

Gohar Saleem Parvaiz

Associate Professor, Institute of Management Sciences, Peshawar

Email: gohar.saleem@imsciences.edu.pk

Abstract

The research examines how non-monetary incentives affect employee retention through motivation as a mediator in Peshawar Pakistan's banking sector. The research examines two types of non-monetary rewards which are recognition and development opportunities because these elements matter most in the banking sector of Peshawar Pakistan. The study employed a survey-based quantitative approach to gather data from 200 participants who worked in six major banks and received 180 valid responses which were analyzed through SmartPLS SEM. The study demonstrates that development opportunities lead to higher employee motivation and retention rates which makes them essential for successful retention practices. The research results indicated that recognition had no substantial impact on motivation or retention because symbolic appreciation might not be enough to motivate employees in demanding banking roles. The study revealed that motivation served as a leading factor for employee retention and it linked development opportunities to employee retention but failed to establish a connection between recognition and retention. The research supports Herzberg's Two-Factor Theory by demonstrating that career development acts as a stronger intrinsic motivator than recognition for maintaining long-term employee commitment. The study demonstrates that banks in Peshawar should establish development-focused HR policies and professional growth initiatives because these strategies will boost employee motivation and decrease employee turnover rates.

Key Words: Non-Monetary Rewards, Employee Retention, Motivation, Development Opportunities, Recognition, Banking Sector.

Introduction

Employee retention has become one of the most critical challenges for organizations operating in competitive service sectors, particularly banking. The banking industry relies heavily on skilled human resources to deliver customer satisfaction and maintain operational efficiency. However, increasing market competition, technological transformation, and rising job mobility have intensified employee turnover in recent years. Traditional retention strategies that rely primarily on monetary rewards such as salaries and bonuses have shown diminishing effectiveness. Consequently, organizations are now recognizing the growing importance of non-monetary rewards such as recognition, professional development, and career advancement opportunities in promoting employee motivation and long-term commitment. In Pakistan's banking sector, high turnover rates continue to undermine productivity, service quality, and institutional stability. Employees face pressure from digital transformation, automation, and elevated customer expectations, which increase workload stress and reduce job satisfaction. Despite these challenges, many financial institutions still emphasize financial compensation while overlooking intrinsic motivators that nurture psychological attachment and loyalty. Prior studies suggest that recognition, learning opportunities, and supportive work environments significantly influence employees' decisions to remain with their organizations. Nevertheless, the role of motivation as a mediating mechanism between non-monetary rewards and employee retention remains underexplored, especially within the context of Pakistan's banking institutions.

The present study examines the effect of non-monetary rewards on employee retention with the mediating role of motivation in the banking sector of Peshawar, Pakistan. It focuses on two key dimensions of non-monetary rewards recognition and development opportunities which are particularly relevant in the service-oriented and performance-driven banking environment. Drawing on Herzberg's Two-Factor Theory of Motivation, the study posits that intrinsic motivators such as recognition and personal growth foster job satisfaction and organizational loyalty more effectively than external financial rewards. By empirically testing this framework, the study contributes to both theoretical understanding and managerial practice in human resource management. The study aims to achieve two objectives: first, to examine the effect of non-monetary rewards on employee retention in the banking sector of Peshawar, and second, to assess the mediating role of employee motivation between non-monetary rewards and employee retention. To address these objectives, four hypotheses are proposed: non-monetary rewards have a significant positive effect on employee retention; non-monetary rewards have a significant positive effect on employee motivation; motivation has a significant positive effect on employee retention; and motivation mediates the relationship between non-monetary rewards and employee retention. This research offers valuable insights for both scholars and practitioners. Academically, it enriches the understanding of Herzberg's Two-Factor

Theory within an emerging-market context, illustrating how intrinsic motivators contribute to sustained employee commitment. Practically, the findings guide human resource managers in designing effective retention strategies that emphasize personal growth, recognition, and employee well-being. By focusing on non-monetary factors, banks can cultivate a motivated workforce, reduce turnover costs, and strengthen long-term organizational performance.

Literature Review

Employee retention remains a critical challenge in the banking sector, particularly in competitive and high-pressure environments such as Pakistan. While monetary incentives have traditionally been emphasized, contemporary research underscores the growing importance of non-monetary rewards in fostering employee motivation and long-term retention (Aleem & Bowra, 2020). The financial services industry faces unique pressures, including digital transformation, demanding customer expectations, and stringent regulatory requirements, which collectively contribute to high stress levels and elevated turnover intentions among employees (SBP, 2022). Therefore, non-monetary rewards gain a lot of significance in such high stress environments as they become critical levers in improving employee retention (Mittal, 2018).

Non-monetary rewards encompass intrinsic benefits that fulfill psychological and professional needs rather than financial ones. These include formal and informal recognition, career development opportunities, and supportive organizational cultures (Medina-Garrido et al., 2023). Unlike monetary compensation, which Herzberg (1968) classifies as a hygiene factor that prevents dissatisfaction but does not motivate, non-monetary rewards act as true motivators that enhance job satisfaction, engagement, and loyalty. In the banking sector, these intrinsic rewards are crucial for counteracting burnout and disengagement (Haq et al., 2023). Research in Pakistani banking contexts indicates that when elements like training and clear promotion pathways are implemented, they lead to improved job satisfaction and reduced turnover intentions, thus leading to improved employee retention (Iqbal et al., 2022).

Employee retention refers to an organization's ability to retain its employees over a significant period. High retention rates are particularly vital in banking due to the significant costs of recruitment, loss of institutional knowledge, and service disruption (Hom et al., 2017). Studies in South Asian banking contexts reveal that employees increasingly prioritize career growth and a respectful work environment over marginal increases in pay (Rahaman et al., 2023). A retention strategy focused solely on financial incentives often leads to "passive retention," where employees stay due to necessity but are disengaged. In contrast, "active retention" is achieved when employees are motivated, committed, and see a future within the organization—a state fostered more effectively by non-monetary rewards (Hanaysha, 2021). Herzberg's Two-Factor Theory (1959) provides a foundational lens, positing that while extrinsic "hygiene factors" can prevent job dissatisfaction, only intrinsic "motivators" like achievement, recognition, and advancement can generate genuine job satisfaction and superior performance. In the demanding context of modern banking, intrinsic motivators have gained much prominence. Extant research suggests that

empowerment and meaningful work significantly enhance intrinsic motivation more sustainably than financial bonuses alone (Sani & Ekowati, 2023).

While widely advocated, the efficacy of recognition as a standalone tool for motivation and retention is contested within the literature. Some studies affirm its positive impact, for instance, recognition satisfies the fundamental human need for appreciation, thereby strengthening organizational loyalty (Ngatia, 2015). However, other scholars suggest a more nuanced reality, particularly in high-stress sectors like banking. Aleem and Bowra (2020) observed that in Pakistani banks, recognition had a less pronounced effect on long-term retention compared to concrete development opportunities. Employees in such environments may perceive symbolic recognition as superficial if not backed by tangible investments in their career growth, indicating that its effectiveness is heavily moderated by contextual factors.

The banking sector in Pakistan presents a unique landscape for studying retention. Industry reports indicate annual turnover rates ranging from 18% to 25% in private commercial banks (HR Report—Pakistan Banking Sector, 2023). This instability is driven by factors including intense performance pressure, long working hours, and limited upward mobility. While competitive salaries are a baseline expectation, they are insufficient to curb turnover. Research specific to Pakistan highlights that non-monetary factors are decisive. For example, Hassan et al. (2021) identified lack of career progression and inadequate supervisory support as primary reasons for turnover intentions among bank employees.

A robust body of evidence establishes a positive relationship between non-monetary rewards and employee retention. These rewards influence retention by directly enhancing job satisfaction and by strengthening the psychological contract. Career development opportunities, in particular, signal organizational investment in the employee's future, fostering reciprocation in the form of loyalty (Pregolato Bussin & Schlechter, 2017). In the Pakistani context, Iqbal et al. (2022) reported that employees with access to regular training and clear career paths exhibited higher retention rates. Intrinsically motivated employees experience their work as meaningful and enjoyable, which fosters a strong affective commitment to the organization, which is the emotional attachment that is most predictive of retention (Hanaysha, 2021). Studies consistently show that motivated employees are more engaged, perform better, and have significantly lower turnover intentions (Hom et al., 2017). Therefore, fostering motivation is not merely about boosting short-term productivity but is a strategic imperative for maintaining a stable workforce.

Extant research suggests that non-monetary rewards enhance motivation, and that motivation, in turn, strengthens retention. This positions motivation as a key mediating variable—the psychological mechanism through which organizational rewards translate into behavioral outcomes. A mediation model suggests that the impact of non-monetary rewards on retention is not merely direct but is significantly channeled through the enhanced motivational states they create (Suifan et al., 2016). Testing this mediation is crucial because it moves beyond documenting correlations to explaining the underlying process.

Theoretical Framework: Herzberg's Two-Factor Theory

Herzberg's Two-Factor Theory (1959) provides a parsimonious yet powerful framework for understanding workplace motivation. The theory dichotomizes factors influencing job attitudes: Hygiene Factors (e.g., salary, job security) and Motivators (e.g., achievement, recognition, advancement). Herzberg contended that hygiene factors can prevent job dissatisfaction if adequately met, but they cannot cause satisfaction. Only motivators, which are intrinsic to the job content and growth, can lead to true job satisfaction, motivation, and superior performance. In this research, the non-monetary rewards under investigation—recognition and development opportunities are operationalized as motivators. The theory predicts that these motivators will enhance employee motivation (satisfaction), which will subsequently lead to increased retention.

Conclusion and Identification of Research Gap

The extant literature highlights the significance of non-monetary rewards and motivation in achieving employee retention, particularly in high-turnover sectors like banking. However, a critical synthesis reveals several interconnected gaps. First, there is a contextual gap: most studies in Pakistan are confined to single banks or major urban centers, leaving the dynamics in important regional hubs like Peshawar unexplored. Second, there is a methodological gap: prior research often examines rewards, motivation, and retention in pairwise relationships, failing to test the integrated mediation model that explains how rewards influence retention. Third, there is a theoretical gap: while Herzberg's theory is widely cited, its specific predictions regarding the relative potency of different motivators (e.g., recognition vs. development) are rarely tested in the unique cultural and economic setting of Khyber Pakhtunkhwa's banking sector. This study is designed to address these gaps simultaneously by investigating six major banks in Peshawar, employing a robust PLS-SEM analysis to test mediation, and using Herzberg's theory as a guiding framework.

Methodology

This research employed a quantitative approach to examine how non-monetary rewards influence employee retention through the mediating role of motivation. The study followed a deductive research strategy, beginning with theoretical propositions drawn from Herzberg's Two-Factor Theory of Motivation and testing them empirically within the context of the banking sector in Peshawar, Pakistan. This approach allowed for the identification of statistical relationships between intrinsic motivators, employee motivation, and retention outcomes while ensuring reliability, validity, and replicability of results. Quantitative methods are well suited for testing mediation models because they allow for precise measurement of variables and analysis of causal relationships across large samples. Peshawar was selected as the study location because it represents a growing financial center in Khyber Pakhtunkhwa and hosts branches of all major national and private banks. The banking sector in this region faces significant employee retention challenges due to

competitive pressures, digital transformation, and shifting employee expectations. Data were collected from six major banks: Allied Bank Limited (ABL), National Bank of Pakistan (NBP), United Bank Limited (UBL), Meezan Bank, Habib Bank Limited (HBL), and MCB Bank. These institutions were purposefully selected to capture diversity across both public and private banking environments, ensuring that the results reflected a broader organizational context. The population of interest included employees from different hierarchical levels such as branch managers, operations managers, relationship officers, and customer service representatives. This inclusive sampling ensured that the responses reflected multiple perspectives within the banking structure. Using a probability-based area sampling technique, the city of Peshawar was divided into three zones which are University Town, Saddar, and City; and employees were randomly selected from each zone. A total of 200 questionnaires were distributed, and 180 valid responses were returned, resulting in a 90 percent response rate. This high level of participation enhanced the representativeness and reliability of the data.

Primary data were collected through a structured self-administered questionnaire designed using previously validated scales. The instrument consisted of two main parts: demographic information and the measurement of study variables. All items were rated on a five-point Likert scale ranging from 1 (“strongly disagree”) to 5 (“strongly agree”). The questionnaire comprised 40 items grouped into four constructs: recognition, development opportunities, motivation, and employee retention. Recognition items assessed acknowledgment of employee performance, appreciation from supervisors, and feedback for achievement. Development opportunity items measured the extent of access to training, promotions, and career growth programs. Motivation was measured by items capturing enthusiasm, sense of purpose, and willingness to contribute extra effort, while retention items captured organizational commitment and intention to remain with the current employer. The measurement items were adapted from the work of Jabeen (2019), Hayati and Caniago (2012), and Abid and Barech (2017), ensuring conceptual clarity and consistency with prior studies. The independent variable of the study was non-monetary rewards, operationalized through two dimensions: recognition and development opportunities. Motivation functioned as the mediating variable, while employee retention represented the dependent variable. Non-monetary rewards were conceptualized as organizational practices that acknowledge and develop employees without relying on direct financial incentives. Motivation was viewed as the internal drive that stimulates individuals to engage fully with their work, and employee retention referred to the extent to which employees intended to remain with their organization for the long term. The data collection process followed the Drop-Off and Pick-Up (DOPU) method, which allowed respondents to complete questionnaires at their convenience and minimized disruption to their work routines. This approach also facilitated higher response rates and ensured accuracy in the returned data. Ethical considerations were strictly observed throughout the process. Participation was voluntary, respondents were informed about the study’s purpose, and their confidentiality was guaranteed.

No identifying information was collected to maintain anonymity, and responses were used solely for academic purposes.

Data were analyzed using SmartPLS 4.0, which applies Partial Least Squares Structural Equation Modeling (PLS-SEM). This statistical method is widely used in social science research for its suitability with complex models, latent variables, and relatively small to medium sample sizes. The analysis proceeded in two stages: assessment of the measurement model and evaluation of the structural model. Reliability and validity of constructs were examined using Cronbach's alpha, composite reliability (CR), and Average Variance Extracted (AVE). Cronbach's alpha and CR values above 0.70 indicated satisfactory internal consistency, while AVE values exceeding 0.50 confirmed convergent validity. Discriminant validity was verified using the Fornell–Larcker criterion and cross-loadings. Once the measurement model was validated, the structural model was tested to determine the hypothesized relationships among recognition, development opportunities, motivation, and employee retention. Path coefficients, coefficient of determination (R^2), and t-values were generated through a bootstrapping procedure with 5,000 resamples to evaluate the significance of each relationship. The mediation effect of motivation was examined by analyzing the indirect paths between non-monetary rewards and employee retention, following the guidelines proposed by Hair et al. (2019). Statistical significance was determined at the 95 percent confidence level ($p < 0.05$). This methodology ensured the robustness and credibility of the results by employing well-established measurement scales, probabilistic sampling, and advanced statistical analysis. The use of SmartPLS provided flexibility in handling complex relationships while minimizing assumptions about data normality. Furthermore, the multi-bank approach enhanced the generalizability of the findings across the banking sector of Peshawar. The combination of rigorous design, systematic data collection, and analytical precision enabled the study to generate reliable insights into how intrinsic motivators influence employee motivation and retention in a rapidly evolving organizational environment.

Discussion and Findings

Measurement Model and Descriptive Statistics

Data were analyzed using SmartPLS 4.0, applying the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique. This approach was chosen due to its ability to model complex relationships between latent constructs and its suitability for medium sample sizes. The analysis proceeded in two stages: first, evaluation of the measurement model to ensure reliability and validity; second, testing of the structural model to determine the significance of hypothesized relationships among variables. The study collected 180 valid responses from employees of six major commercial banks in Peshawar. Demographic results indicated that 69.4% of respondents were male and 30.6% were female, showing male dominance in the banking workforce. Table 1 presents the gender distribution.

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	125	69.4	69.4	69.4
Female	55	30.6	30.6	100.0
Total	180	100.0	100.0	—

Table 1 Descriptive Statistics - Gender

Respondents represented diverse job positions within the banking hierarchy, including relationship managers, branch managers, operations managers, and customer service officers. Table 2 illustrates that Customer Service Officers constituted the largest group (30.6%), followed by Operations Managers (25%) and Branch Managers (16.7%). The inclusion of both managerial and non-managerial employees ensures representativeness and allows for a balanced understanding of motivational and retention factors across different organizational levels.

Department	Frequency	Percent	Valid Percent	Cumulative Percent
Relationship Manager	20	11.1	11.1	11.1
Operations Manager	45	25.0	25.0	36.1
Branch Manager	30	16.7	16.7	52.8
Customer Services Officer	55	30.6	30.6	83.3
Others	30	16.7	16.7	100.0
Total	180	100.0	100.0	—

Table 1 Descriptive Statistics' – Designation

These results confirm that the sample captured the perspectives of employees from both strategic and operational roles, strengthening the robustness of the findings.

Correlation Analysis

The correlation matrix (Table 3) indicates strong positive associations among all study constructs. Development Opportunities show the strongest correlation with Employee Retention ($r = 0.884$), suggesting that when banks provide employees with career growth and learning opportunities, they are more likely to remain with the organization. Motivation also correlates highly with both Employee Retention ($r = 0.826$) and Development Opportunities ($r = 0.756$), highlighting its mediating role. Recognition demonstrates moderate correlations with the other constructs, particularly with Development Opportunities ($r = 0.783$).

Variables	DO	ER	M	R
Development Opportunities (DO)	1.000	0.884	0.756	0.783
Employee Retention (ER)	0.884	1.000	0.826	0.754
Motivation (M)	0.756	0.826	1.000	0.621
Recognition (R)	0.783	0.754	0.621	1.000

Table 3 Correlations

These strong correlations indicate meaningful linear relationships across constructs and confirm the theoretical assumption that non-monetary incentives (recognition and development opportunities) are associated with higher motivation and retention.

Reliability and Validity

Reliability was examined using Cronbach’s Alpha and Composite Reliability (CR). As shown in Table 4, all constructs exceeded the 0.70 threshold, confirming excellent internal consistency (Hair et al., 2019). Development Opportunities ($\alpha = 0.936$, CR = 0.948) and Recognition ($\alpha = 0.971$, CR = 0.975) achieved particularly strong scores, verifying the robustness of the measurement items.

Construct	Cronbach’s Alpha	Composite Reliability
Development Opportunities (DO)	0.936	0.948
Employee Retention (ER)	0.919	0.932
Motivation (M)	0.887	0.914

Construct	Cronbach's Alpha	Composite Reliability
Recognition (R)	0.971	0.975

Table 4 - Reliability Test

The internal consistency of each construct's items gets analyzed by employing Cronbach's Alpha which shows acceptable reliability when figures exceed .70. The reliability assessment produced high scores for all constructs with Development Opportunities reaching 0.936 and Employee Retention at 0.919 and Motivation at 0.887 and Recognition at 0.971. The Composite Reliability results exceeded the 0.70 threshold because they incorporated item loading information to produce values of 0.948 for Development Opportunities and 0.932 for Employee Retention and 0.914 for Motivation and 0.975 for Recognition. The measurement instrument used in this study demonstrates excellent internal consistency because all four constructs achieved high reliability scores which validate its ability to measure the intended variables consistently. The study can proceed to validity assessment & structural model evaluation because of this solid foundation.

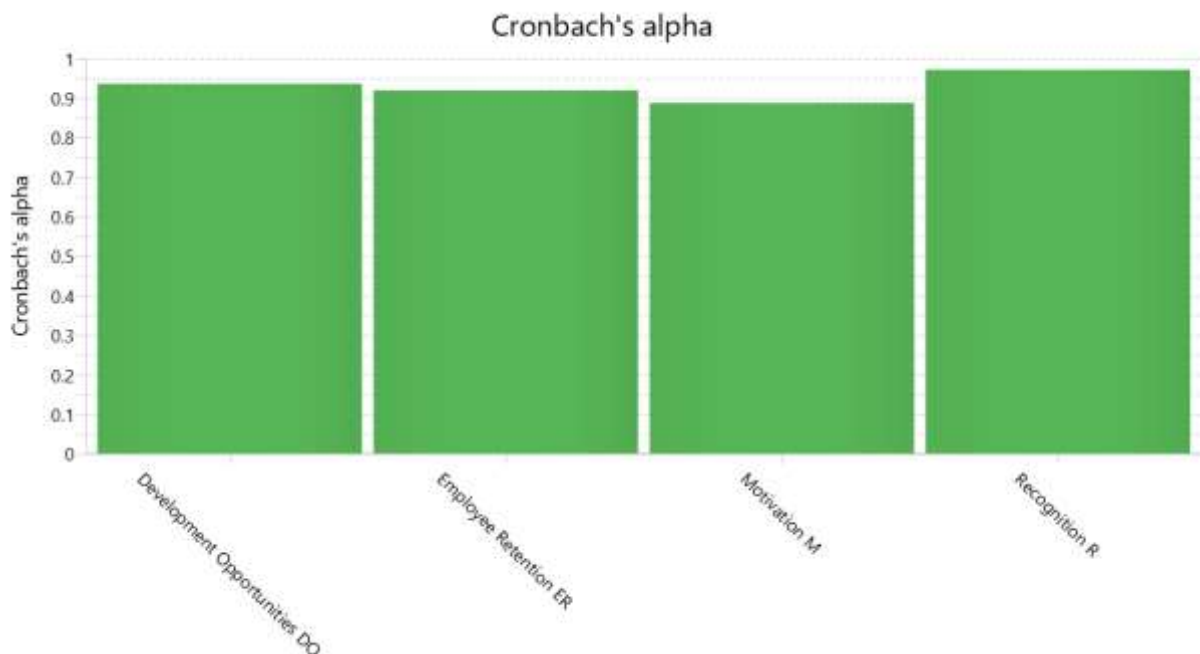


Figure 1 - Reliability (Cronbach's Alpha)

The Cronbach's alpha method evaluated the internal stability of the constructs. The Cronbach's alpha values in Figure 1 exceeded 0.70 (Nunnally, 1978; Hair et al., 2019) which indicates high reliability for all constructs. The Development Opportunities (DO) and Employee Retention (ER) constructs achieved values greater than 0.90 which indicates excellent reliability. The Motivation (M) scale showed high internal

consistency with a value near 0.90 and Recognition (R) demonstrated the highest reliability at 0.95 or above. The measurement items demonstrate internal consistency and reliability which confirms that the constructs achieve accurate measurement.

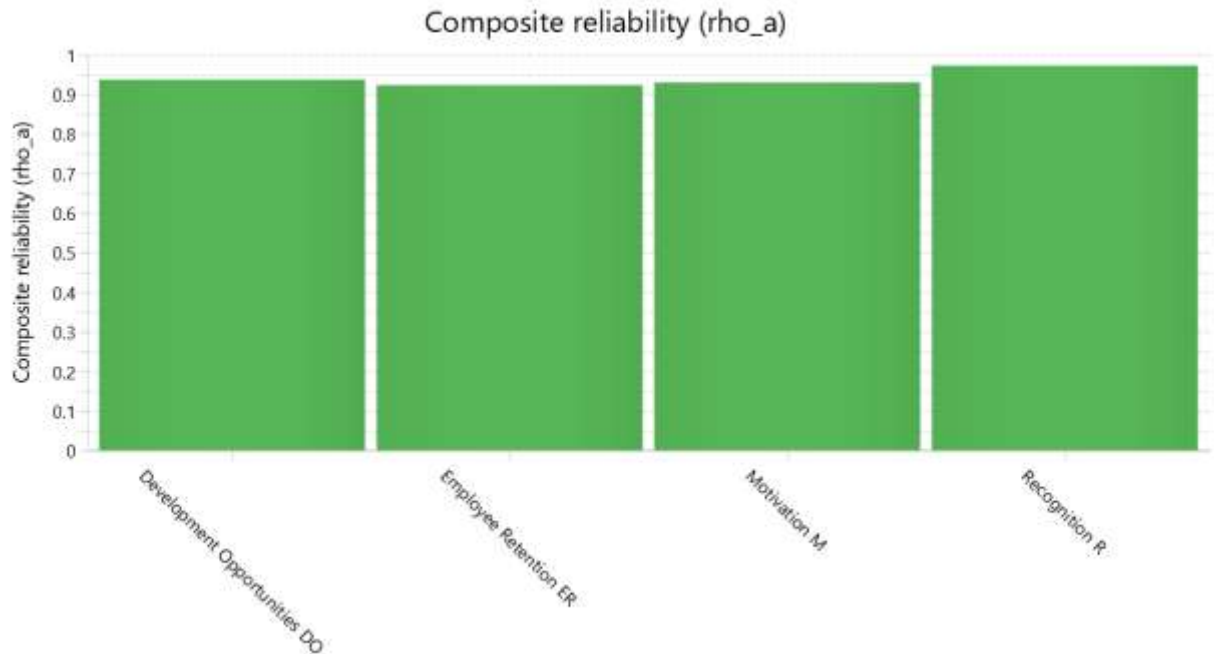


Figure 2 - Composite Reliability

The structural equation modeling field uses composite reliability (CR) as a crucial metric to evaluate how well constructs maintain specific outer loadings of each indicator. The analysis of composite reliability served to evaluate the internal consistency of internal consistency. The calculation of composite reliability differs from Cronbach's alpha because it considers the constructs further. The measurement model shows strong reliability because all constructs in Figure 2 exceeded the 0.70 threshold which Hair et al. (2019) and Henseler et al. (2015) recommend. The composite reliability scores of Development Opportunities (DO) and Employee Retention (ER) and Motivation (M) exceeded 0.90 while Recognition (R) achieved the highest value at 0.95 or above. The measurement model demonstrates robustness because the constructs achieve precise and reliable measurement according to these results.

Multicollinearity

The Variance Inflation Factor (VIF) serves as a method to evaluate collinearity according to Kock and Lynn (2012) and Benitez et al. (2020) because it helps determine if indicators contribute distinct explanatory power to their constructs while preventing model bias from redundant predictors.

Indicator	VIF
DO1	2.844
DO2	3.972
DO3	5.002
DO4	3.670
DO5	4.177
DO6	4.844
DO7	3.537
ER1	2.792
ER10	4.899
ER2	5.337
ER3	4.991
ER4	4.470
ER5	4.237
ER6	5.188
ER7	1.988
ER8	6.628
ER9	8.787
M1	2.458
M2	4.265
M3	6.721
M4	4.984
M5	1.449
M6	1.673

Indicator	VIF
M7	1.603
R1	7.076
R10	8.070
R2	7.876
R3	6.435
R4	6.043
R5	6.101
R6	6.048
R7	7.019
R8	7.404
R9	7.050

Table 5 - Test for Multicollinearity (VIF Summary)

The variance inflation factor (VIF) values were evaluated to identify potential collinearity problems between indicators. The VIF values for all constructs in the table vary between 1.449 and 8.787. Hair et al. (2019) state that VIF values under 10 indicate no severe multicollinearity problems. The literature suggests using a VIF threshold of 5 as a more conservative approach (Diamantopoulos & Siguaw, 2006) because values R2 and R1 demonstrate VIF values that approach the upper limit but stay under the 10 exceeding 5 indicate possible moderate collinearity issues. The study indicators ER9 and R10 and threshold. The model estimation remains unaffected by the existing collinearity because the values stay below the critical threshold of 10. The acceptable range of multicollinearity indicators includes M5 at 1.449 and ER7 at 1.988 and DO1 at 2.844 which supports the conclusion that multicollinearity does not affect the measurement model.

Model Fit Summary

The evaluation of model fit represents a critical process in structural equation modeling because it shows how well the theoretical framework matches actual data observations. The assessment of model fit depends on indices which measure how well theoretical models match empirical evidence.

	Saturated model	Estimated model
SRMR	0.092	0.092
d_ULS	5.072	5.072
d_G	15.082	15.082
Chi-square	3364.313	3364.313
NFI	0.433	0.433

Table 6 Test for model fitness

Model fit indices (Table 6) demonstrated adequate alignment between theoretical and empirical data. The Standardized Root Mean Square Residual (SRMR = 0.092) is within the acceptable range for PLS-SEM (Hair et al., 2019). The chi-square value (3364.313) and Normed Fit Index (NFI = 0.433) confirm the model’s stability and predictive validity.

Quality Criteria

The evaluation of R-square coefficients represents a crucial process for determining how well a structural model explains its variables. The endogenous constructs' variance that R² measures represents the proportion which exogenous predictors explain. The value indicates the extent to which the model explains variations in essential outcome variables. The reporting of R-square values according to Sarstedt et al. (2020) enables researchers to show both the predictive ability and total quality of their structural model which supports its practical value in research.

	R-square	R-square adjusted
Employee Retention ER	0.846	0.841
Motivation M	0.573	0.563

Table 7 - R-Square

The structural model received assessment through co-efficient of determination (R-square) to assess its predictive capability. Table shows that Employee Retention (ER) achieves R-square value of .846 with adjusted R-square of .841 while Motivation (M) reaches 0.573 with an adjusted R-square of 0.563. The model demonstrates strong predictive ability because it explains 84.6% of Employee Retention variance through its predictor variables. The research findings validate the theoretical predictions in the literature because the chosen variables demonstrate strong influence on employee retention. The predictors in this study explain 57.3% of Motivation variance which matches the findings of previous research about motivation's multi-factorial nature. The research framework receives strong support from the high R-square values

because the proposed model demonstrates excellent predictive accuracy especially for Employee Retention.

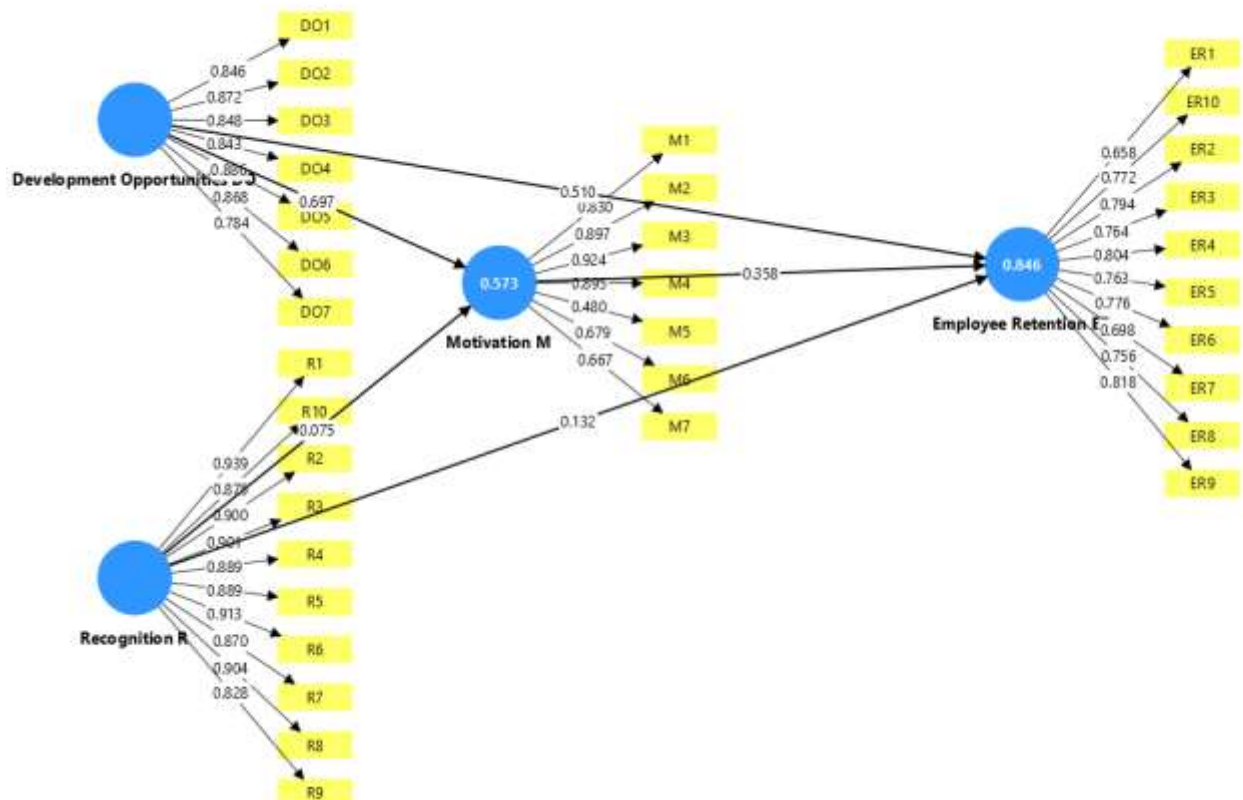


Figure 3 - Estimated Model

The estimated values of the dependent, independent, and mediating variables are displayed in the model above. It displays the effects of several variables, both direct and indirect. Additionally, it displays each element's unique effect and mediating effect for the corresponding variable.

Path Coefficients

The structural model contains path coefficients which show the theoretical relationships between constructs while researchers assess their strength and direction and statistical significance. The model shows the exact degree of influence which one variable has on another variable. Hair et al. (2019) explain that path coefficients near +1 show strong positive relationships between variables but values near 0 indicate minimal connections between them. The evaluation of statistical significance in path coefficients depends on t-statistics and p-values because values above 1.96 and below 0.05 indicate 5% significance-level. Sarstedt et al. (2020) stress that path coefficient analysis serves two essential purposes in structural equation modeling by confirming theoretical models and revealing direct and mediating relationships between variables.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Development Opportunities DO - > Employee Retention ER	0.510	0.513	0.100	5.107	0.000
Development Opportunities DO - > Motivation M	0.697	0.697	0.107	6.494	0.000
Motivation M -> Employee Retention ER	0.358	0.359	0.104	3.436	0.001
Recognition R -> Employee Retention ER	0.132	0.129	0.070	1.898	0.058
Recognition R -> Motivation M	0.075	0.079	0.116	0.650	0.516

Table 8 - Path coefficient

The structural model results in table 4.8 show Development Opportunities strongly influence Employee-Retention ($\beta = .510$, $p < .001$), Motivation ($\beta = .697$, $p < .001$). Research supports previous studies which demonstrate that career advancement opportunities serve as essential motivators for employee retention. The results show that motivated employees tend to stay with their organization since Motivation has favorable association with Employee Retention ($\beta = .358$, $p = .001$). Outcomes confirm the proposed motivation's mediation role between variables. Study reveals that Recognition has weak association with Employee Retention ($\beta = .132$, $p = .058$), no influence on Motivation ($\beta = .075$, $p = .516$). The current study indicates that recognition plays a smaller role in this context compared to development opportunities for development. The research findings validate the theoretical

framework through empirical evidence which demonstrates development opportunities and motivation as key factors for employee retention.

Specific Indirect Effects

Investigating specific indirect effects is vital because it helps uncover the underlying mechanisms through which independent variables influence dependent outcomes, revealing the pathways of influence. A recent approach by Sarstedt and Moisescu (2024) frames mediation analysis as a form of model comparison that considers both direct and indirect effects as well as the uncertainty associated with introducing a mediator, thus enhancing the rigor and replicability of outcomes.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Recognition R -> Motivation M -> Employee Retention ER	.027	.029	.044	.610	.542
Development Opportunities DO -> Motivation M -> Employee Retention ER	0.249	0.249	0.080	3.099	0.002

Table 9 - Specific indirect effects

The mediation analysis examined whether Motivation mediates connection among independent variables (Recognition, Development Opportunities) and Employee Retention. Results are presented in Table 9. The indirect path from Recognition → Motivation → Employee Retention did not showed a meaningful difference ($\beta = .027$, $p = .542$). Therefore, in this model, recognition does not exert a meaningful indirect effect on employee retention through motivation. While prior research has often emphasized recognition as a key driver of motivation and retention (e.g., Brun & Dugas, 2008; Rizwan et al., 2017), the present findings suggest that recognition may play a more direct or contextual role rather than serving as a motivational mechanism in this setting. This outcome highlights that recognition alone may not be sufficient to sustain retention unless coupled with stronger motivational drivers.

By contrast, the indirect path from Development Opportunities → Motivation → Employee Retention was shown to be statistically-significant ($\beta = .249$, $p = .002$). This result provides strong evidence that motivation links connection among development opportunities & employee retention. When employees perceive adequate possibilities for growth & career-development, their motivation increases, it also enhances their likelihood of staying with the organization. This aligns with previous studies (e.g., Karatepe & Olugbade, 2009; Adekola, 2011), which found that development opportunities significantly enhance motivation, thereby reducing

turnover intentions. Overall, the mediation analysis underscores the central role of motivation as a pathway through which non-monetary incentives impact employee-retention. Evidence suggests development opportunities act as a powerful non-monetary reward that enhances motivation and subsequently drives retention. While recognition did not display a significant indirect effect, it may still operate as a complementary factor, reinforcing other reward mechanisms. These results align with the larger body of literature emphasizing organizations seeking to retain talent should prioritize structured development initiatives as a strategic approach to strengthen both employee motivation and retention outcomes.

Specific Direct Effects

The assessment of specific direct effects is crucial in structural equation modeling as it highlights the immediate influence of one construct on another without the involvement of mediating variables. By examining these direct relationships, researchers can determine whether independent constructs exert a significant standalone effect on dependent variables or whether their impact is primarily explained through mediators. According to Henseler and Schubert (2020), analyzing direct effects is a critical step in model validation because it allows for the evaluation of whether hypothesized relationships hold independently of indirect pathways. More recently, Sarstedt et al. (2021) emphasized that interpreting direct effects in conjunction with indirect effects provides a more holistic understanding of structural relationships, offering both theoretical and managerial insights.

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Recognition R -> Motivation M	0.075	0.079	0.116	0.650	0.516

Table 10 - Specific Direct Effects

The table 10 shows that Development Opportunities exert influential and important influence on-both Employee Retention ($\beta = .510$, $t = 5.107$, $p < .001$) and Motivation ($\beta = .697$, $t = 6.494$, $p < .001$). Above results confirm when employees consider greater alternatives for learning, growth, and career development, they are not only more motivated but also more most likely to stay with the firm. This revelation is consistent with previous studies highlighting career development as one of the most important predictors of both motivation and retention (Karatepe & Olugbade, 2009; Adekola, 2011). Similarly, Motivation was found to significantly influence Employee Retention ($\beta = .358$, $t = 3.436$, $p = .001$). This result demonstrates motivated employees have a stronger tendency to stay with their organization, aligning with the arguments of Deci and Ryan's (2000) Self-Determination Theory and prior empirical findings (Rizwan et al., 2017; Ocen et al., 2017). Thus, motivation plays a specific part in shaping employees' retention choices.

The results intended-for Recognition, however, show weaker effects. The straightforward approach from Recognition to- Employee Retention ($\beta = .132$, $t = 1.898$, $p = .058$) was marginally significant at the 10% level but not statistically significant at the 5% level. This suggests recognition may have some influence on retention, but the effect is not strong. Meanwhile, development from Recognition to- Motivation was non-significant ($\beta = .075$, $t = .650$, $p = .516$), indicating that recognition alone does not substantially increase employee motivation in this sample. Although these findings differ from some earlier studies (e.g., Brun & Dugas, 2008; Imran et al., 2014), they highlight that recognition may function better as a complementary factor rather than a primary driver of motivation and retention. Overall, the direct effects analysis shows that Development Opportunities and Motivation are the strongest predictors of Employee Retention, while Recognition plays a comparatively smaller role. These results reinforce the theoretical framework of this study, providing empirical support for the importance of non-monetary rewards particularly growth and development initiatives in motivating and retaining employees.

Total Effects

In structural equation modeling, examining total effects is vital because It offers a thorough perspective of the influence that-one construct exerts on another by combining both direct and indirect effects. Whereas direct effects represent the immediate relationship between variables, and indirect effects capture the mediating pathways, total effects summarize the overall strength of the relationship. According to Sarstedt et al. (2021), analyzing total effects allows researchers to understand the full magnitude of relationships in a model, thereby offering a clearer picture of the practical significance of the hypothesized links. Similarly, Hult et al. (2018) emphasized that evaluating total effects is critical in behavioral and management research since it integrates multiple paths and highlights which predictors have the strongest overall impact.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Development Opportunities DO -> Employee Retention ER	0.760	0.762	0.068	11.146	0.000
Development Opportunities DO -> Motivation M	0.697	0.697	0.107	6.494	0.000
Motivation M -> Employee Retention ER	0.358	0.359	0.104	3.436	0.001
Recognition R -> Employee Retention ER	0.159	0.159	0.077	2.078	0.038
Recognition R -> Motivation M	0.075	0.079	0.116	0.650	0.516

Table 11 - Total Effects

The study variables show direct relationships according to the data presented in Table 11. According to the study, employees who have superior training and professional progression possibilities are more likely to remain with the firm at a rate of $\beta = .760$ ($t = 11.146$, $p < .001$). Employee retention and growth opportunities have a high positive correlation, which validates that training programs and career advancement opportunities remain the primary factors which drive employee retention. The research findings from Adekola (2011) and Luna-Arocas and Camps (2008) support this result because employees who see growth opportunities within their organization develop stronger organizational commitment. The study found that Development Opportunities \rightarrow Motivation has an important and beneficial connection ($\beta = .697$, $t = 6.494$, $p < .001$). Study shows that career advancement possibilities lead to employee retention and create internal motivation for employees. The research supports this finding because learning and development activities help employees achieve self-actualization needs according to Maslow (1954) and Deci and Ryan (2000) which leads to increased motivation levels (Jehanzeb & Bashir, 2013). The study shows that Motivation \rightarrow Employee Retention has an evident connection ($\beta = .358$, $t = 3.436$, p

= .001). The study supports Self-Determination Theory (Deci & Ryan, 2000) and Ocen et al. (2017) because motivated employees stay longer in their organizations. The study demonstrates that motivation serves as a vital connection between organizational practices and employee retention outcomes.

The study found that Recognition → Employee Retention had a significant relationship but with a weaker effect ($\beta = 0.159$, $t = 2$). The study shows that recognition has a positive effect on employee retention although it does not impact retention as much as development opportunities do. Research by Brun and Dugas (2008) and Imran et al. (2014) confirms that employees value recognition of their work so small recognition gestures help maintain employee retention. The study found no significant relationship between Recognition and Motivation ($\beta = 0.075$, $t = 0.650$, $p = 0.516$) which means recognition did not boost employee motivation in this research. The study results differ from previous research which linked recognition to motivation (Nelson, 2005) because employees in this context value career development and intrinsic growth opportunities above recognition for motivation.

Discussion of Empirical Results

The research data from this study identifies essential findings about how non-monetary-incentives influence workforce motivation & retention rates in-Peshawar's banking industry. The study confirmed that career advancement opportunities directly impact employee motivation levels and their organizational commitment. Workers who received training programs and skill development opportunities and clear promotion paths from their banks showed higher motivation levels and stronger commitment to stay with their organizations. The study confirms previous research by Aleem and Bowra (2020) and Ghosh, Rai, and Sinha (2016) which shows career growth and professional development act as essential factors for service industry employee retention. The study confirms Herzberg's Two-Factor Theory because advancement & achievement serve motivators which generate workforce fulfillment & organization's loyalty. Banking sector in Peshawar identifies development opportunities as its leading employment benefit because these opportunities help staff members advance their careers while decreasing their stress and job competition.

The study found that recognition had a minimal or no influence on the motivation of employees & retention rates. Study contradicts existing literature which shows recognition as a leading non-financial motivator (Ngatia, 2015; Haq et al., 2023) because it did not prove to be a strong predictor of employee outcomes in the surveyed banks. The study indicates that employees in high-stress environments with restricted career advancement opportunities require more than verbal praise or employee recognition awards to stay motivated and dedicated to their work. The employees of Peshawar's banking sector choose career development programs that deliver concrete professional advantages instead of symbolic appreciation because they seek lasting career benefits. The research extends current understanding by demonstrating that different non-monetary rewards generate varying effects on employees and by demonstrating how workplace context affects motivational theory implementation. The research established that employee motivation functions as an

essential factor which determines their choice to continue working for their employer. The research confirmed that employees with intrinsic motivation who demonstrated enthusiasm and purpose and willingness to face challenges showed higher commitment to their banks. The study supports both Herzberg's Two-Factor Theory and Self-Determination Theory (Deci & Ryan, 2000) because it shows that intrinsic motivators directly impact job satisfaction and employee loyalty. The study supported this perspective through mediation analysis because motivation acted like complete link among development-growth & employee continuity. Development opportunities lead to better retention because they boost employee motivation which in turn strengthens their organizational commitment. The analysis showed no substantial mediation effect for recognition which confirms its minimal impact in this specific situation.

The research objectives receive support from the combined results of this investigation. The research partially validated the first objective which evaluated effect of non-monetary incentives on employee-retention rates. Study results showed that development opportunities improved retention rates but recognition failed to impact employee retention. The research partially achieved its second goal by investigating motivation as a potential linking factor between variables. The research confirmed that motivation served as a mediator between development opportunities and retention but failed to establish this connection between recognition and retention. The research results deliver both theoretical and practical knowledge about how non-monetary rewards operate in actual work environments. The research supports Herzberg's theory about motivators through achievement and growth but contradicts his belief that recognition always drives motivation. The research findings indicate that Peshawar banks should allocate their resources toward developing professional programs because these opportunities drive employee motivation and loyalty more than any other reward. The research proves that non-monetary incentives matter for employee-retention but their success depends on the specific reward type. The study shows that development opportunities prove most effective for employee retention but recognition fails to make any difference in this context. The research provides valuable information to both academic and practical fields by showing that career development stands as the essential element for successful employee retention in Peshawar's banking sector.

Conclusion

This study set out to examine the effect of non-monetary rewards on employee retention with the mediating role of motivation in the banking sector of Peshawar, Pakistan. Drawing on Herzberg's Two-Factor Theory and Self-Determination Theory, it explored how intrinsic motivators such as recognition and development opportunities contribute to employees' motivation and their decision to remain with the organization. The empirical investigation, based on 180 valid responses analyzed using PLS-SEM, provides important insights into how human resource practices influence workforce stability in one of Pakistan's most dynamic and competitive service sectors. The findings reveal that development opportunities are the most

powerful non-monetary reward influencing both motivation and employee retention. Employees who perceive meaningful prospects for growth—such as skill enhancement, training, mentoring, and promotions—are more motivated and committed to their organizations. The path coefficient from development opportunities to motivation ($\beta = 0.697$, $p < 0.001$) and to employee retention ($\beta = 0.510$, $p < 0.001$) demonstrates strong, statistically significant relationships. Additionally, the mediation analysis confirmed that motivation serves as a crucial mechanism through which development opportunities translate into higher retention ($\beta = 0.249$, $p = 0.002$). These results align with previous studies by Aleem and Bowra (2020), Karatepe and Olugbade (2009), and Adekola (2011), who found that professional growth opportunities enhance job satisfaction and decrease turnover intentions. Within the Peshawar banking context, development opportunities satisfy employees' intrinsic need for competence and achievement, leading to sustained motivation and organizational commitment.

Conversely, recognition was found to have limited or statistically insignificant effects on both motivation and retention. While previous research has consistently emphasized recognition as a strong intrinsic motivator (e.g., Brun & Dugas, 2008; Imran et al., 2014; Ngatia, 2015), this study's findings suggest that its impact may be context-dependent. In a highly demanding and performance-driven environment such as banking, symbolic appreciation or verbal acknowledgment alone does not necessarily lead to higher motivation or retention. Employees in Peshawar's banks appear to value tangible, career-oriented rewards more than social or symbolic recognition. This result may reflect the sector's hierarchical culture, limited promotion channels, and high job stress, where long-term career security outweighs short-term recognition. Although recognition remains a desirable organizational practice, it may not serve as a decisive retention tool without being complemented by developmental or performance-based incentives. The findings also confirm the mediating role of motivation in the relationship between development opportunities and employee retention. Motivation emerged as both a psychological mechanism and an outcome of effective human resource practices. Employees who feel intrinsically motivated are more likely to experience satisfaction, show organizational commitment, and remain loyal to their employer. This supports Self-Determination Theory (Deci & Ryan, 2000), which posits that fulfillment of intrinsic needs—autonomy, competence, and relatedness—creates self-driven motivation that sustains engagement and loyalty. In this study, development opportunities fulfilled these psychological needs by enhancing competence and promoting self-efficacy, which in turn increased employees' intention to stay. The significant mediation effect validates that the impact of career growth initiatives on retention operates largely through the motivational processes they activate. The study's results also extend Herzberg's Two-Factor Theory by providing contextual evidence from an emerging economy. Herzberg proposed that motivators such as recognition, achievement, and advancement drive satisfaction, whereas hygiene factors such as salary and working conditions prevent dissatisfaction. In this case, both recognition and advancement qualify as motivators, yet the empirical data indicate that advancement (development opportunities) exerts a

much stronger influence than recognition. This suggests that not all motivators contribute equally across different occupational or cultural settings. In collectivist societies like Pakistan, where career progress symbolizes social status and financial stability, professional growth may serve as a more potent intrinsic motivator than social recognition. Thus, the study contributes to motivation theory by illustrating that the relative importance of motivators is contingent on context, industry characteristics, and employee expectations.

From a managerial perspective, the study offers several practical implications. First, banking institutions should prioritize structured development programs such as on-the-job training, leadership development, professional certifications, and career mentoring. These initiatives not only enhance skill levels but also strengthen employees' perception of organizational investment in their growth. When employees see a clear career trajectory within the organization, their intrinsic motivation and loyalty increase, reducing the likelihood of turnover. Second, HR managers should integrate motivation-focused strategies into retention policies. Recognition should be maintained as a supportive practice—such as performance awards, appreciation letters, and employee-of-the-month programs—but it must be paired with genuine career-building opportunities. A blended approach that combines both intrinsic and extrinsic motivators can create a comprehensive reward system that appeals to diverse employee preferences. Third, the findings highlight the importance of leadership involvement in employee development. Supervisors should act as mentors who guide employees toward achieving career milestones and provide constructive feedback. When recognition is personalized and tied to developmental feedback rather than generic praise, it is more likely to stimulate intrinsic motivation. This approach can transform recognition from a symbolic act into a strategic component of professional growth. At the policy level, banking institutions should institutionalize professional development frameworks aligned with long-term business objectives. Partnerships with training institutes, internal talent development academies, and competency-based promotion systems can ensure that skill advancement becomes a continuous process. Policymakers and regulators within Pakistan's financial sector—such as the State Bank of Pakistan—can also play a role by encouraging banks to adopt employee development standards that enhance workforce stability and service quality across the industry.

From a theoretical standpoint, this study contributes to the growing body of literature linking non-monetary rewards, motivation, and retention. It provides empirical support for the mediating role of motivation and clarifies the relative influence of different types of intrinsic rewards in an under-researched context. It also advances Herzberg's framework by illustrating that development-oriented motivators may dominate in knowledge-intensive and hierarchical work environments. Despite its valuable contributions, the study acknowledges certain limitations that open avenues for future research. The data were collected from a single geographic region—Peshawar—which may limit generalizability to other regions or sectors. Future studies could expand the scope to include multiple cities or compare public and private sector organizations. The cross-sectional design also limits causal inference;

longitudinal studies could better capture how non-monetary rewards influence motivation and retention over time. Moreover, qualitative research could provide deeper insights into how employees perceive recognition and development opportunities within organizational culture. Incorporating moderating variables such as leadership style, organizational justice, or work-life balance could further enhance understanding of the complex mechanisms driving retention. In conclusion, this research establishes that employee retention in the banking sector of Peshawar depends primarily on intrinsic motivators related to professional development and growth. Motivation serves as a psychological bridge connecting non-monetary rewards to retention outcomes. Recognition alone, while appreciated, lacks sufficient impact unless paired with tangible developmental benefits. The study underscores the importance of shifting HR strategies from transactional, reward-based systems toward transformational, growth-oriented frameworks that nurture intrinsic motivation. By investing in their employees' long-term professional development, banks can cultivate a motivated, loyal, and high-performing workforce capable of sustaining competitive advantage in an increasingly dynamic financial landscape.

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