

# **The Impact of Material and Moral Incentives on the Efficiency of Financing and Investment Decisions in Financial Institutions: A Field Study on Financial Institutions in Al-JUFRA Municipality**

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## **Abstract**

This study examines the impact of financial and non-financial incentives on financing and investment decision efficiency within financial institutions in Jufra Municipality. Given human resources' pivotal role in institutional success, motivating staff directly influences decision quality—securing low-cost funding and investing in projects with optimal risk-return profiles.

Using a descriptive analytical approach, a questionnaire distributed to a simple random sample of 35 employees and decision-makers across six local institutions, including banks and social funds. Data analyzed via SPSS employed descriptive statistics, correlations, and simple linear regression to test hypotheses.

Key findings reveal a statistically significant effect of financial incentives on financing decision efficiency, with an explanatory power of 41.1%, indicating substantial contribution to decision quality and rationalization. Non-financial incentives showed a moderate positive correlation with financing decisions. Both incentive types demonstrated statistically significant effects on investment decision efficiency.

Based on these results, the study recommends developing and improving incentive systems directly linked to performance quality. It emphasizes enhancing continuous training programs, adopting an integrative model combining both incentive types for optimal financial performance, and strengthening job security. Financial incentives strategically directed to rationalize investments, while non-financial support prioritized as a genuine driver of employee satisfaction and professional excellence. This dual approach is essential for achieving sustained efficiency in financial decision-making across the sector.

**Keywords:** Financial Incentives, Non-financial Incentives, Financing Decisions, Investment Decisions, Performance Efficiency, Financial Institutions, Jufra Municipality.

## 1. Introduction

Human resources are the cornerstone and backbone of any financial institution striving for leadership and excellence in an increasingly competitive and complex financial market environment. It is now widely accepted in modern management and financial literature that the quality of financial decisions, whether financing or investment, depends not only on the accuracy of quantitative models and numerical analyses, but also, and perhaps more importantly, on the efficiency of the human element that makes these decisions, including their experience, skills, and motivation to work effectively [7]. Research indicates that individuals with greater financial literacy are better equipped to manage debt, achieve better investment results, and save for the future [4, 8], thus underscoring the role of human capital in enhancing the financial performance of institutions.

Modern management theories have thus emerged; emphasizing that employee motivation is not merely an organizational luxury, but a direct strategic driver of the entire work system. Well-designed incentives help improve performance efficiency and reduce information gaps between management and decision-makers [1]. However, research indicates that the impact of incentives is not uniform across all contexts. While incentives promote risk-taking in non-financial companies, highly regulated financial institutions experience weaker effects due to strict oversight [2]. Furthermore, conflicts of interest between financial advisors and investors can limit the effectiveness of incentives offered to advisors [5].

This perspective aligns with the research problem, as financial institutions face increasing challenges in improving the efficiency of their financing and investment decisions, particularly in light of escalating competition and the evolution of financial markets. Material and non-material incentives stand out as among the most important factors influencing employee behavior. They contribute to raising employee motivation levels and enhance their ability to make more efficient and effective decisions, thus supporting the achievement of organizational goals and the sustainability of its success [3]. Recent studies have shown that non-financial incentives are associated with lower advantage and higher capital expenditures, indicating that they encourage the adoption of long-term investment strategies that promote sustainable value creation [10]. Financial advisors also play a vital role as an informational tool for guiding individuals toward more sustainable investments, particularly those with high levels of financial literacy [6].

Despite the importance of incentives, many financial institutions do not fully grasp their actual impact on the efficiency of financing and investment decisions, which negatively affects the organization's financial performance. Studies have found that financial incentives can lead to opportunistic behavior among managers, prioritizing short-term financial results over the long-term value of the organization. This necessitates the design of balanced and well-considered incentive systems. Research also indicates that well-designed investment incentives contribute to attracting investment, but factors such as infrastructure quality and workforce skills are more important than financial incentives alone [9].

This research is therefore significant. It contributes theoretically by providing new and important information explaining how incentives influence financial decisions, while practically and practically by offering solutions and practical advice to managers of financial institutions in the Jufra region. It demonstrates how to distribute material and non-material incentives effectively to ensure the success of their investments and decisions. Accordingly, this research primarily aims to analyze the impact of material and non-material incentives on the efficiency of financing and investment decisions in the

financial institutions included in the study sample, ultimately leading to the formulation of a scientific vision that contributes to enhancing overall institutional performance.

## 2. Study Methodology

### A. Study Population and Sample

The human population in the study represents the employees and decision-makers in the financial departments and divisions related to financial and investment decision-making in financial institutions in the municipality of Al-Jufra. The study sample consisted of 35 employees, distributed as follows:

- General Fund for Social Solidarity: seven employees.
- Islamic Bank, Houn: four employees.
- Republic Bank, Sukna: fifteen employees.
- General Fund for Social Security: three employees.
- Higher Institute of Air Conditioning and Refrigeration: two employees.
- Higher Institute of Science and Technology: four employees.

### B. Study Instrument

A questionnaire divided into four main sections used:

1. Material Incentives (five statements).
2. Moral Incentives (ten statements).
3. Efficiency of Financing Decisions (ten statements).
4. Efficiency of Investment Decisions (ten statements).

## 3. Research Scope

The scope of the current study defined according to the following parameters:

1. **Subject Matter Scope:** The research is limited to studying "The Impact of Material and Moral Incentives on Enhancing the Efficiency of Financing and Investment Decisions" through a survey of the employees of financial institutions.
2. **Spatial Scope:** The field study conducted on financial institutions operating within the Jufra Municipality, as this is the selected study environment for data collection and results analysis.
3. **Temporal Scope:** The research period extends from 2023 to 2024, encompassing both the theoretical and field studies.

## 4. Instrument Validity and Reliability

The reliability coefficient (Cronbach's Alpha) calculated for the survey questions, and the results were as follows:

**Table 1:** Validity and Reliability Coefficient

| Axis Name            | Number Of Phrases | Stability Coefficient | Validity Coefficient |
|----------------------|-------------------|-----------------------|----------------------|
| Financial Incentives | 5                 | 0.870                 | 0.933                |
| Moral Incentives     | 5                 | 0.500                 | 0.707                |
| Financing Decisions  | 5                 | 0.612                 | 0.782                |
| Investment Decisions | 5                 | 0.799                 | 0.894                |

## **5. Previous Studies**

### **A. The Impact of Incentives On Investor Behavior and Investment Decisions**

A study examining the impact of financial advisor incentives on client investments conducted using detailed data from an investment firm and a robust causal identification strategy. Researchers leveraged a natural experiment resulting from the implementation of MiFID II in 2018 and found that client investments respond strongly to changes in financial advisor incentives. Advisors reacted through multiple mechanisms, including encouraging existing clients to raise new funds, directing those funds to high-incentive funds, and attracting new clients. The study also concluded that the MiFID II reform led to balanced incentives, resulting in increased portfolio efficiency through lower average fees and enhanced investment diversification. This study aligns with current research on the impact of incentives on financial decisions, but it focuses on external advisors, while current research focuses on employees within the financial institutions themselves [11].

A study published in the journal Judgment and Decision Making examined sustainable investment strategies. An innovative experimental investment model designed with 1,422 participants to investigate how investors make decisions among three main strategies: profit maximization, exclusion, and inclusion. The results showed that the three strategies chosen almost equally under normal circumstances, but this pattern altered through hypothetical interventions. The findings also indicated that utilitarianism better predicted inclusion, while a high sense of self-moral identity better predicted exclusion. These results are consistent with current research emphasizing that investment decisions influenced by non-financial factors, but current research focuses on moral incentives within financial institutions rather than individual strategies [12].

A study published in the Journal of Corporate Accounting & Finance which titled by "The Effects of Linking Executive Compensation to Non-Financial Performance Measures on Corporate Risk and Subsequent Firm Performance, Using Data from S&P 500 Companies,". Revealed that linking compensation to non-financial metrics, particularly those related to environmental, social, and governance (ESG) factors, was associated with lower advantage but also with higher return volatility and increased strategic risk. This effect pronounced in companies with greater analytical coverage. These findings are consistent with current research indicating that non-material incentives encourage employees to adopt long-term investment strategies; however, that research focused on executives, while the current study considers all levels of employees [13].

### **B. The Impact of Incentives and Information on Financial Decisions**

A study published in the journal "Business Strategy and Environment" examined the impact of digital financial advisors on sustainable investment choices. Using an experimental design with 708 participants from four European countries, the study found that sustainability-related information provided by advisors significantly increased asset allocation to sustainable investments, and that financial literacy reinforced this positive effect. These findings are consistent with current research highlighting the pivotal role of information and incentives in shaping decisions; however, current research focuses on intrinsic motivation rather than the role of external advisors [14].

A study examining the risk preferences of investors in the fintech sector, using data from 108 investors on a digital platform, aimed to compare the ability of survey and empirical methods to predict actual investor

behavior. The study found that risk preferences derived from the empirical (incentivized) method outperformed those derived from the survey method in predicting investors' portfolios in the short and medium term. These findings are consistent with the current research indicating that financial incentives contribute to improving the quality of financial decisions [15].

### **C. The Role of Incentives in Long-Term Savings and Financing**

A study titled "The Impact of Tax Incentives and Behavioral Stimuli on Retirement Savings Decisions" reviewed the effects of reforms in several countries. The results showed that tax incentives proved effective in boosting retirement contributions, particularly among active savers and older individuals, and that encouraging voluntary contributions from employers might be more effective in supporting a broader range of individuals to invest for the long term. This study aligns with the current study in emphasizing the importance of incentives of all kinds in shaping financial behavior; however, the first study focused on individual savings, while the current study focuses on corporate financing and investment decisions [16].

## **6. Research Gap and the Distinctive Features of the Current Study**

Previous studies have examined the impact of incentives on various aspects of financial and investment decisions. However, these studies were conducted in different contexts, mostly in developed financial markets (the United States and Europe), and often focused on financial or executive advisors, sustainable investments, or individual risk preferences. Furthermore, most relied on data from advanced financial markets, while the financial environment in Libya differs in its structure and organization.

The current study distinguishes itself from previous studies in the following ways:

1. It integrates both material and non-material incentives as independent variables and links them to the efficiency of both financial and investment decisions, whereas most previous studies focused on only one type of incentive.
2. The study applied in the field to financial and banking institutions in the Jufra Municipality, giving it practical value relevant to the local banking sector in Libya. This is a rare occurrence in academic studies.
3. It focuses on employees and decision-makers within financial institutions, not just external advisors or executives.
4. It employs a descriptive-analytical approach using questionnaires and statistical analysis, providing practical results that used to develop incentive policies. Thus, the current study comes to fill an important research gap in the academic literature, by providing a quantitative analysis of the impact of material and moral incentives on the efficiency of financing and investment decisions in the Libyan context, while providing practical recommendations applicable to local financial institutions.

## **7. Study results**

### **A. Descriptive Statistics of Demographic Variables**

**Table 2:** Distribution of the Study Sample by Gender

| Gender | Frequency | Ratio % |
|--------|-----------|---------|
| Male   | 22        | 62.9    |

|               |    |      |
|---------------|----|------|
| <b>Female</b> | 13 | 37.1 |
| <b>Total</b>  | 35 | 100  |

**Table 3:** Distribution of the Study Sample According to Academic Qualification

| <b>Qualification</b> | <b>Frequency</b> | <b>Ratio %</b> |
|----------------------|------------------|----------------|
| <b>Diploma</b>       | 15               | 42.9           |
| <b>Bachelor's</b>    | 13               | 37.1           |
| <b>Master's</b>      | 07               | 20             |
| <b>Doctorate</b>     | 00               | 00             |
| <b>Total</b>         | 35               | 100            |

**Table 4:** Distribution of the Study Sample According to Years of Experience

| <b>Experience</b>         | <b>Frequency</b> | <b>Ratio %</b> |
|---------------------------|------------------|----------------|
| <b>Less than 5 years</b>  | 08               | 22.9           |
| <b>5-10 years</b>         | 09               | 25.7           |
| <b>More than 10 years</b> | 18               | 51.4           |
| <b>Total</b>              | 35               | 100            |

**Table 5:** Distribution of the Study Sample by Job Title

| <b>Job title</b>       | <b>Frequency</b> | <b>Ratio %</b> |
|------------------------|------------------|----------------|
| <b>Employee</b>        | 13               | 37.1           |
| <b>Department Head</b> | 15               | 42.9           |
| <b>Manager</b>         | 07               | 20             |
| <b>Total</b>           | 35               | 100            |

## B. Hypothesis Testing

### ✓ The Impact of Financial Incentives on the Efficiency of Financing Decisions

**Table 6:** Pearson Correlation Coefficient between Material Incentives and the Efficiency of Financing Decisions

| <b>Factors</b>                           |                     | <b>Financial Incentives</b> | <b>Efficiency of Financing Decisions</b> |
|------------------------------------------|---------------------|-----------------------------|------------------------------------------|
| <b>Financial Incentives</b>              | Pearson Correlation | 1                           | 0.411**                                  |
|                                          | Sig. (2-tailed)     |                             | 0.014                                    |
| <b>Efficiency of Financing Decisions</b> | Pearson Correlation | 0.411**                     | 1                                        |
|                                          | Sig. (2-tailed)     | 0.014                       |                                          |
| **Significance Level 0.01                |                     |                             |                                          |

**Table 7:** Regression Model for the First Hypothesis

| <b>The model</b>                                     | <b>DW</b> | <b>There is no Self-Relationship</b> | <b>f<sub>test</sub></b> | <b>sig</b> | <b>R<sup>2</sup></b> | <b>R</b> |
|------------------------------------------------------|-----------|--------------------------------------|-------------------------|------------|----------------------|----------|
| <b>The first</b>                                     | 1.842     | ✓                                    | 6.712                   | 0.014      | 16.9%                | 0.411    |
| ** Significance level 0.05, * Significance level 0.1 |           |                                      |                         |            |                      |          |

The study results showed a statistically significant effect of financial incentives on the efficiency of financing decisions at a significance level of 0.05, with an explanatory power of 41.1%. This indicates that financial incentives contribute significantly to improving the quality and rationality of financing decisions. This finding suggests that employees who receive appropriate financial incentives—whether in the form of basic salaries, bonuses, incentive rewards, or allowances—tend to exert greater effort in analyzing available financing alternatives, scrutinizing financial data, and carefully selecting the least costly and most suitable financing sources for the organization's needs.

This result is attributed to the fact that financial incentives fulfill employees' basic needs (according to Maslow's hierarchy of needs), providing them with a sense of security and financial stability, thus freeing up their mental energy to focus on complex cognitive tasks such as making sound financial decisions. Furthermore, linking financial incentives to performance—as Victor Vroom's expectancy theory suggests—makes employees realize that the effort invested in improving the quality of financial decisions will lead to outstanding performance, which in turn will result in a desirable financial reward, thus enhancing their motivation to continue striving.

This finding aligns with the results of Battiston et al. (2026), who found that client investments respond strongly to changes in financial advisors' incentives. Advisors reacted through various mechanisms, including encouraging existing clients to bring in new funds and direct them to funds with high incentives. It also agrees with Saeed (2025) study, which demonstrated that linking executive compensation to non-financial metrics is associated with lower advantage and higher capital expenditures, indicating that the incentive structure directly influences corporate financial decisions.

This finding in the current study distinguished by its application to the level of non-executive employees in financial institutions. Indicating that the impact of material incentives is not limited to senior management alone, but extends to all levels of the organization, which reinforces the importance of designing comprehensive and fair incentive systems that cover different job categories.

## ✓ The Impact of Non-Material Incentives on the Efficiency of Financial Decisions

**Table 8:** Pearson correlation coefficient between moral incentives and the efficiency of financial decisions

| Factors                           |                     | Moral Incentives | Efficiency of Financing Decisions |
|-----------------------------------|---------------------|------------------|-----------------------------------|
| Moral Incentives                  | Pearson Correlation | 1                | 0.304*                            |
|                                   | Sig. (2-tailed)     |                  | 0.076                             |
| Efficiency of Financing Decisions | Pearson Correlation | 0.304*           | 1                                 |
|                                   | Sig. (2-tailed)     | 0.076            |                                   |
| **Significance Level 0.01         |                     |                  |                                   |

**Table 9:** Results of the Regression Model for the Second Hypothesis

| The model                                            | DW    | There is no Self-Relationship | f <sub>test</sub> | sig   | R <sup>2</sup> | R     |
|------------------------------------------------------|-------|-------------------------------|-------------------|-------|----------------|-------|
| The Second                                           | 2.207 | ✓                             | 3.358             | 0.076 | %9.2           | 0.304 |
| ** Significance level 0.05, * Significance level 0.1 |       |                               |                   |       |                |       |

From the results, a strong, moderate positive correlation (30.4%) between non-material incentives and the efficiency of financial decisions. Non-material incentives have a positive impact on financial decisions, with a significance level of 10%. This finding indicates that non-material factors such as appreciation and recognition of achievements, certificates of appreciation, promotions, mutual respect, and participation in decision-making contribute to increased efficiency in financial decisions, although their impact is less strong than that of material incentives.

This result attributed to the fact that non-material incentives address the psychological and social needs of employees, making them feel valued and a sense of belonging to the organization. This, in turn, strengthens their organizational loyalty and their willingness to exert extra effort to serve the organization's interests. Herzberg's dual-factor theory suggests that motivating factors (such as appreciation and recognition) are responsible for creating job satisfaction and enhancing intrinsic motivation, while utilitarian factors (such as salary and material conditions) merely prevent dissatisfaction. This explains why non-material incentives had a positive impact on the efficiency of financial decisions, albeit a lesser impact than material incentives. This finding aligns with Saeed (2025) study, which found that linking executive compensation to non-financial metrics (particularly those related to environmental, social, and governance factors) is associated with lower leverage and higher strategic risk, suggesting that non-financial incentives encourage more balanced and sustainable funding strategies. It also supports Lucarelli, Citi, and Pasquino's (2026) study, which demonstrated that sustainability information provided by advisors leads to a significant increase in asset allocation to sustainable investments, further highlighting the role of non-financial factors in guiding financial decisions.

The results also indicate that the most influential statement in the non-financial incentives axis was "Management regularly informs us of the organization's successes and achievements," with a mean score of 4.942, significantly higher than the hypothetical mean of three. This reflects the strong employee agreement on the importance of transparency and management communication in boosting motivation. This indicates that employees in the financial institutions of Al-Jufra municipality attach great importance to public recognition of their achievements and being informed of the institution's successes, which strengthens their emotional attachment to the institution and their desire to contribute to achieving its financing goals.

### ✓ **The Impact of Financial Incentives on the Efficiency of Investment Decisions**

**Table 10:** Results of the regression model for the third hypothesis

| <b>The model</b>                                     | <b>DW</b> | <b>There is no Self-Relationship</b> | <b>f<sub>test</sub></b> | <b>sig</b> | <b>R<sup>2</sup></b> | <b>R</b> |
|------------------------------------------------------|-----------|--------------------------------------|-------------------------|------------|----------------------|----------|
| <b>The Third</b>                                     | 1.800     | ✓                                    | 4.09                    | 0.034      | 12.9%                | 0.360    |
| ** Significance level 0.05, * Significance level 0.1 |           |                                      |                         |            |                      |          |

The above results a statistically significant relationship between financial incentives and the efficiency of investment decisions, with a clear and significant effect at the 0.05 level, an explanatory power of 12.9%, and a correlation coefficient of 36%. This finding indicates that financial incentives contribute to improving the quality of investment decisions, although their impact less pronounced than in financial decisions.

This result attributed to the fact that investment decisions characterized by a higher degree of complexity and uncertainty, requiring in-depth analyses of future risks and returns, and often extending over long periods. In such contexts, financial incentives alone may not be sufficient to guarantee optimal investment decisions; they need to support by other factors such as technical expertise, specialized knowledge, and access to accurate and reliable information. This finding aligns with the study by Chen, Han, and Bao (2026), which found that risk preferences inferred through the experimental (incentivized) method outperformed those inferred through the survey method in predicting investor portfolios, suggesting that incentives (as stipulated in the experimental design) improve the accuracy of investment preference inference. It also agrees with the study by Karlsson-Larsson et al. (2025), which demonstrated that the three investment strategies (profit maximization, elimination, and inclusion) chosen equally under normal conditions, but this pattern could be altered through interventions, indicating the role of incentives in guiding investment behavior.

The results also indicate that the most influential statement in the investment decision efficiency axis was "Sound investment decisions help generate clear profits that increase the strength of the organization," with a mean score of 4.342, reflecting employees' awareness of the importance of quality investment decisions in achieving organizational goals. The statement "We continuously monitor and track the performance of our projects to ensure that they achieve the desired results" also received an arithmetic mean of (3.885), indicating an interest in monitoring investment performance, although this interest needs to be reinforced through more effective incentive systems.

## ✓ The Impact of Non-Material Incentives on the Efficiency of Investment Decisions

**Table 11:** Pearson Correlation Coefficient between Intrinsic Incentives and the Efficiency of Investment Decisions

| Factors                           |                     | Moral Incentives | Efficiency of Financing Decisions |
|-----------------------------------|---------------------|------------------|-----------------------------------|
| Moral Incentives                  | Pearson Correlation | 1                | 0.358**                           |
|                                   | Sig. (2-tailed)     |                  | 0.035                             |
| Efficiency of Financing Decisions | Pearson Correlation | 0.358**          | 1                                 |
|                                   | Sig. (2-tailed)     | .0760            |                                   |
| Significance Level 0.05**         |                     |                  |                                   |

**Table 12:** Results of the regression model for the fourth hypothesis

| The model                                            | DW    | There is no Self-Relationship | f <sub>test</sub> | sig | R <sup>2</sup> | R     |
|------------------------------------------------------|-------|-------------------------------|-------------------|-----|----------------|-------|
| The Third                                            | 1.331 | ✓                             | 4.851             | 00  | 12.8%          | 0.385 |
| ** Significance level 0.05, * Significance level 0.1 |       |                               |                   |     |                |       |

The results clearly showed a statistically significant positive effect of non-material incentives on the efficiency of investment decisions at a significance level of less than 0.05, with a correlation coefficient of 38.5% and an explanatory power of 12.8%. This finding indicates that employee support and recognition contribute to guiding and improving the quality of the organization's investment choices and projects.

This result attributed to the fact that sound investment decisions require creative and innovative thinking, the ability to analyze available information in unconventional ways, and a willingness to take calculated risks. These cognitive and behavioral characteristics strongly influenced by the prevailing psychological and social climate in the workplace. An employee who feels valued and respected by their management, and who finds a supportive work environment that encourages creativity and tolerates calculated errors, is more willing to propose new investment ideas, participate effectively in evaluating investment alternatives, and commit to achieving the best results.

This finding is consistent with the study by Karlsson-Larsson et al. (2025) demonstrated that participants using exclusion and inclusion strategies differed in their ethical reasoning, with utilitarianism better predicting inclusion, while a high level of self-identity and morality better predicting exclusion. This suggests that employees' intrinsic values and motivations (enhanced by moral incentives) play a significant role in guiding investment decisions. This aligns with Briere's (2025) study, which found that tax incentives proved effective in boosting retirement contributions, particularly among active savers, but that information access via financial advisors or digital platforms was also beneficial, indicating the role of non-material factors in shaping long-term financial decisions.

The results indicate that the most influential statement in the moral incentives domain was "Kind words and good treatment from superiors increase my desire and enthusiasm for work," with a mean score of 4.114. This underscores that positive interpersonal relationships in the workplace enhance employee motivation to work effectively, thereby improving the quality of investment decisions. The statement "Management encourages new ideas and development initiatives submitted by employees" also received an arithmetic mean of (3.685), indicating that there is encouragement for creativity, although this encouragement needs to be reinforced through clearer incentive systems and specific rewards for successful investment ideas.

#### ✓ **The Integrated Model of Material and Moral Incentives**

Multiple regression analysis revealed a statistically significant combined effect of both tangible and intangible incentives on improving the efficiency of financial (financing and investment) decisions at a significance level of 0.05. This result indicates that tangible and intangible incentives work together in an integrated manner to enhance the efficiency of financial decisions, as each complements the other in meeting the diverse needs of employees and motivating them to achieve outstanding performance.

This finding is attributed to the fact that employees have multiple and varied needs that differ according to their personalities and individual circumstances. While some employees may prefer direct tangible incentives (such as bonuses and rewards), others may prefer intangible incentives (such as appreciation and recognition). Self-determination theory (Deci & Ryan) suggests that intrinsic motivation (related to intangible incentives) and extrinsic motivation (related to tangible incentives) can interact in complex ways; in some cases, tangible incentives may undermine intrinsic motivation (displacement effect), while in others, they may enhance it. Therefore, designing a balanced incentive system that combines both types can achieve the best results in motivating employees and improving their performance. This finding aligns with a wide range of previous studies that have emphasized the importance of combining tangible and intangible incentives. Saeed study (2025) indicated that incorporating non-financial metrics into compensation contracts broadens managers' focus and encourages them to adopt strategic investment

decisions, while mitigating the risks associated with narrowly focused financial incentives. Similarly, Battiston et al.'s study (2026) demonstrated that, the MiFID II reform generated more balanced incentives, leading to increased portfolio efficiency through lower average fees and enhanced portfolio diversification, suggesting that a balanced incentive design is key to achieving optimal results.

### ✓ **Results in the Local Context**

The results indicate a high level of awareness and knowledge among employees of financial institutions in the Jufra Municipality regarding the importance of incentives in improving the efficiency of financial decisions. All significance levels for the survey items were less than 0.05, confirming a high degree of agreement among employees on the crucial role of incentive systems in supporting efficient financial decision-making. This reflects an acceptable level of financial and administrative literacy among the staff working in these institutions, a positive sign that built upon to develop incentive systems and improve institutional performance.

However, the results also revealed weaknesses in some aspects of the current incentive system; particularly concerning financial incentives for high performers, (the statement "I receive a financial reward when I perform outstanding work" had a mean score of 2.742). In addition, opportunities to participate in training courses (the statement "I have opportunities to participate in training courses to develop my skills and increase my experience" had a mean score of 3.085). This indicates gaps in the current incentive system that need to be addressed, especially regarding incentive rewards for high performers and investment in training and professional development.

These gaps reflect a common challenge in many financial institutions in developing environments, where financial resources may be limited, and operational investments may take precedence over human resource investment. However, the findings clearly indicate that investing in balanced incentive systems is not merely a cost, but a strategic investment that yields tangible benefits for the efficiency of financial decisions and overall organizational performance.

### ✓ **Theoretical and Practical Implications of the Findings**

#### Theoretical Implications

This study makes a significant theoretical contribution to the academic literature on incentives and financial decisions by:

1. Confirming the positive relationship between material and non-material incentives and the efficiency of financing and investment decisions in the context of financial institutions, thus reinforcing the validity of theories linking employee motivation to performance quality (expectation theory, self-determination theory, and pair factor theory).
2. Determining the strength of influence of each type of incentive. Material incentives found to have a stronger impact on financing decisions (41.1%) compared to investment decisions (12.9%), while non-material incentives had a stronger impact on investment decisions (38.5%) compared to financing decisions (30.4%). This suggests that the type of financial decision may determine the most effective type of incentive.

3. Providing empirical evidence from a developing context (financial institutions in Al-Jufra Municipality, Libya), thus filling an important research gap in the literature, which often focuses on developed financial markets.

### Practical Implications

This study presents a set of practical implications for decision-makers in financial institutions:

1. The necessity of designing balanced incentive systems that combine tangible and intangible incentives, taking into account the specific nature of each type of financial decision (financing or investment).
2. The importance of enhancing incentives for high-achieving employees, as the results showed weaknesses in this area, necessitating a review of reward policies and linking them to outstanding performance.
3. Investing in training and professional development, as the results revealed limited opportunities for participation in training courses, an area that can enhance employee efficiency and improve the quality of their financial decisions.
4. Fostering a culture of appreciation and recognition, as the results demonstrated the importance of intangible incentives in improving financial decisions, requiring the activation of recognition policies such as certificates of appreciation, awards, and participation in decision-making.
5. Involving employees in formulating incentive systems to ensure these systems tailored to their needs and preferences, thereby enhancing their effectiveness and reducing the risk of adverse effects.

### Study Limitations and Suggestions for Future Research

Despite the important findings of this study, it faces some limitations that considered when generalizing the results. These limitations can serve as starting points for future research:

1. Sample size (35 employees) is acceptable for exploratory studies, but future research could target larger samples to enhance the accuracy and generalizability of the results.
2. Geographical limitations: The study was limited to financial institutions in the Jufra municipality, which restricts the generalizability of the results to other regions of Libya. Future research could expand the study to include other areas.
3. Reliance on questionnaires as the primary data source, which influenced by social response biases. Future research could utilize other research methods such as in-depth interviews or archival data analysis.
4. Reliance on cross-sectional data, which captures the relationship between variables at a single point in time. Future research could use a longitudinal design to study the evolution of the relationship between incentives and the efficiency of financial decisions over time.
5. Studying mediating and adjusting variables such as organizational culture, leadership style, and job satisfaction, which may provide a deeper understanding of the relationship between incentives and the efficiency of financial decisions.
6. Investigating the potential adverse effects of incentives, such as opportunistic behavior, excessive risk-taking, or manipulation of financial data, especially given previous research suggesting that financial incentives can lead to undesirable behaviors.

## 8. Conclusions

1. High consensus exists among employees\*\* regarding incentives' crucial role in supporting financial decision efficiency (all T-test significance values  $<0.05$ ), reflecting acceptable financial and managerial literacy among workforce.
2. Management's attention to incentives\*\* achieves comprehensive satisfaction, excellence, and institutional success, positively reflecting on financial obligation fulfillment and market reputation.
3. Sound investment decisions enhance institutional financial strength\*\*, while moral support directs and improves investment choice quality, reducing risks and enhancing future returns.
4. Identified gaps\*\*—incentive rewards, overtime compensation, and training opportunities—represent challenges requiring integrated, balanced incentive system reforms tied directly to performance quality.

## 9. Recommendations

### A. Material Incentives

1. Revise incentive systems by linking monetary rewards directly to financing decision quality (41.1% explanatory power). Implement graded bonus structures tied to objective criteria (non-performing loan ratios, financial estimate accuracy, and transaction speed).
2. Enhance reward equity by establishing transparent, publicly announced distribution criteria and joint oversight committees to ensure fairness (mean score 3.314 for equity perception).
3. Strengthen performance-based compensation through special incentive funds for excellence, fair overtime compensation systems, and annual awards for optimal financial/investment decisions.

### B. Moral Incentives

4. Institutionalize recognition systems through formal appreciation letters, certificates, awards, and public acknowledgment of achievements in internal communications and annual ceremonies.
5. Foster participatory management by involving employees in goal-setting and strategic decision-making to enhance organizational belonging and responsibility.
6. Invest in professional development through continuous training programs in financial analysis, risk management, and investment decision-making, with dedicated annual budgets (current mean score: 3.085 for training opportunities).

### C. Integrated Incentive Framework

7. Adopt a hybrid incentive model balancing material and moral rewards, considering individual preferences through flexible "cafeteria-style" benefit systems, with periodic effectiveness evaluations.
8. Ensure job security and stability through permanent contracts for high performers, safe work environments, and work-life balance programs.

### D. Decision Quality Enhancement

9. Link incentives to financial discipline by rewarding employees who improve collection rates and reduce non-performing loans, and teams achieving highest repayment compliance.
10. Direct incentives toward investment performance through bonuses tied to successful feasibility studies, portfolio returns, and risk diversification contributions.
11. Leverage moral appreciation for investment planning through public recognition of excellence, inclusion in advisory committees, and honorary titles for distinguished investment professionals.

#### E. Future Research Directions

12. Conduct longitudinal studies examining the evolving incentive-decision quality relationship over time, and investigate moderating variables (organizational culture, leadership style, job satisfaction).
13. Extend research scope to larger samples across broader geographic areas, and examine potential adverse effects (opportunistic behavior, excessive risk-taking, financial data manipulation).
14. Establish continuous assessment mechanisms for incentive program effectiveness through regular employee surveys and adjustment protocols based on changing workforce needs and market conditions.

### **10. Funding Request**

#### Funding Request Introduction

Based on the scientific and practical importance of the study, its significant findings, and the anticipated benefits of implementing the recommendations, the researchers are submitting a funding request for future research projects aimed at developing incentive systems in Libyan financial institutions and improving the efficiency of their financing and investment decisions.

#### First: Importance of the Proposed Funding

1. To promote scientific research in the financial and banking sector in Libya, given the limited field studies in this area and the urgent need for in-depth research that contributes to the development of the financial and banking sector.
2. To develop incentive systems in financial institutions by designing and implementing integrated incentive programs based on scientific evidence and field results, thereby contributing to improved efficiency in financial decisions and overall institutional performance.
3. To build the capacity of human resources in the financial sector by implementing continuous training and development programs, thereby enhancing employee efficiency and the quality of their financial decisions.
4. To promote transparency and governance in financial institutions by developing clear and objective mechanisms for distributing incentives and linking them to performance, thereby strengthening the confidence of depositors, investors, and the community.

#### Second: Proposed Funding Areas

1. Developing an integrated incentive system for financial institutions, encompassing both tangible and intangible aspects, directly linked to the quality of financing and investment decisions, with clear measurement and evaluation criteria.
2. Implementing specialized training programs in the financial and banking sector, including financial analysis, risk management, investment decision-making, and Islamic finance, with a focus on practical applications and case studies.
3. Establishing an online platform for exchanging financial expertise and knowledge, enabling employees and those interested in the financial field to connect, share experiences and best practices, and benefit from local and international experiences.
4. Conducting periodic field research to measure the effectiveness of incentive systems, assess their impact on the efficiency of financial decisions and institutional performance, and make necessary adjustments based on the results.

5. Holding scientific conferences and seminars in the financial and banking sector, with the participation of local and international experts, to discuss the latest developments and challenges in the field of incentives and financial decisions, and to exchange experiences and best practices.

### Third: Expected Benefits of Financing

1. Improving the efficiency of financing and investment decisions in financial institutions, thus contributing to strengthening their financial stability and their ability to face challenges and risks.
2. Raising the level of job satisfaction among employees by providing fair and appropriate material and non-material incentives, thereby reducing employee turnover and retaining experienced staff.
3. Enhancing transparency and accountability in financial institutions by developing clear and objective mechanisms for distributing incentives and linking them to actual performance.
4. Increasing confidence in the Libyan financial and banking sector by improving the quality of financial decisions and banking services provided to citizens and investors.
5. Supporting economic stability in Libya by enhancing the efficiency of financial institutions and their role in financing economic development and achieving sustainable growth.

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