

## Impact of Extrinsic Rewards on Employees' Performance

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### Abstract

The main purpose of this study is to find out the impact of extrinsic rewards on employees' performance. Primary data was collected through spreading questionnaire among employees working in the banking industry. The questions were pertaining to Salary, working conditions and performance bonuses. Data was analyzed through SPSS by applying different tests. In the end it was concluded that Salary and working conditions impact the employee performance. It can help the employers to focus on these factors to motivate employees.

**Keywords:** Salary; Working conditions; Banking sector; Employees' performance

### Introduction

#### Background of study

The concept of Human Resource Management is growing day by day and the banking sector is one of the most rapidly growing service sectors in Pakistan. Banks play a vital role in economic development of a country. Now a days in Pakistan banks brought a new culture in the banking sector which was based on performance based rewards. Rewards are a vital instrument in employee performance. Rewards help management to hold experienced and efficient workforce in the organization. Employee feels motivated and encouraged if they know that they will be rewarded by their employer [1]. In today's competitive environment if an organization wants to get success then its employees must be motivated. Hellriegel explained that there are several ways to motivate employees in order to get better performance from them. No organization can succeed without motivated employees.

#### Introduction to the topic

In this study subject area is Human Resource Management that focus on extrinsic rewards and employees' performance with special perspective to Habib Bank Limited. This analysis is made to examine relationship between extrinsic rewards and employees' performance in HBL. This research will be limited to the employees of HBL. Several studies have been conducted which concluded that rewards are an effective tool for enhancing performances of employees.

#### Problem statement

The purpose of this research is to examine the relationship between extrinsic rewards and employees' performance in HBL. It has been observed that monetary incentives are mandatory in Pakistan for getting the fruitful results from employees. This analysis is made to investigate and to understand the employee's point of view towards extrinsic rewards whether it enhance employee's performance level or not. This research will also point out the importance of extrinsic rewards and its long term benefits for an organization in form of more interest of employees in organization operations for building strong relationship between organization and its employee's.

#### Research Objectives

The objective of this research is to:

- Analyze the relationship between extrinsic rewards and employees' performance.

- Examine the effect of working condition on employees' performance.
- Examine the effect of performance bonus on employees' performance.
- Examine the effect of salary on employees' performance.

#### Significance of Study

This research is significant in number of ways. In the past researches not much focus is given on extrinsic rewards and its dimensions instead most of the studies were more related towards intrinsic rewards and most of these researches were conducted in other countries. In Pakistan there is need to highlight this issue so that we can compete with other countries. This research will help private sectors to implement the extrinsic rewards for improving the performance of employees and increasing the employee commitment and loyalty towards the organization. However by achieving high performance of employees' organization can get success in the competitive environment.

#### Literature Review

Rewards are a great way to boost employee performance. In today's world, many people have what's-in-it-for-me mentality that affects their work. Rewards are an important motivational factor for everyone. Searle, John G, says reward is basically to motivate the behaviors of employees towards their work. Cameron and Pierce, states that every business use rewards like salary, promotion and other types of bonuses to encourage employees towards high level of performances.

Rewards can be classified as intrinsic rewards and extrinsic rewards. Intrinsic rewards are that which are inbuilt in the job itself as a result of successfully completing the task or attaining his goals. Extrinsic rewards are those that are external to the task of the job, such as pay, work condition, fringe benefits, security, promotion, contract of service, the work environment and conditions of work. Such tangible rewards are often determined at the organizational level, and may be largely outside

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the control of individual managers [2]. Hellriegel expressed extrinsic reward as result of performance in the form of salary, status, fringe benefits and job security. Extrinsic rewards include things such as pay, job security, fringe benefits, promotions and working conditions. Other things included in it are competitive salaries, increment in pay, bonuses, and such indirect forms of payment.

The efficient and timely completion of tasks given to employees as given by employers is regarded as employee performance. Charity Tinofirei, Performance means the degree of completion of an employee's task or given objective. "Performance is associated with quantity of output, quality of output, and timeliness of output, presence / attendance on the job, efficiency of the work completed and effectiveness of work completed". Performance is about how well a person is performing the task given to him or her. Hence, it can be said that employee performance is the efficient and timely completion of tasks and giving quality output. Several studies showed that rewards have great impact on employee's performance. When employees perform well then organizations achieve its desired goals. It can be seen that rewards increases employee's motivational level and motivated employees perform better. Effective reward system scatch employees' attention and interest directly.

There are several factors that have influence on employee performance such as working conditions, job security, relationship between employer and worker, training and development, employees rewarding policies, etc. [3]. Ali and Ahmed said that there should be appropriate salary, compensation and reward systems to enhance employees' performance. Extrinsic rewards like competitive salaries, increment in pay and bonuses enhances performance.

In this research the extrinsic rewards is defined in terms of salary, performance bonus, and working conditions. Salary is defined as base pay to employees either daily, weekly, monthly or yearly basis according to their job structure [4]. Performance bonuses are used as incentives for increasing productivity of an employee or team in an organization. Working condition is the environment in which an employee works such as physical environment, degree of comfort and ease, stress level, etc.

## Theoretical Framework

In this study impact of extrinsic rewards have been analyzed on employees performance, variables taken for this study are extrinsic rewards and employees performance and dimensions are salary, working conditions and performance bonuses as per Baron [3]. If an organization wants to get success then its employees must be motivated and reward system is the best ways to boost employs motivational level and enhance their performance (Figure 1).

## Semantic explanation

The above Semantic Diagram shows a logical relationship between dependent and independent variable. Here employees' performance is taken as dependent variable whereas extrinsic rewards are taken as an independent variable. In this research extrinsic reward is defined in terms of Working Condition, Salary and Performance Bonus [5-8].

## Hypothesis

$H_1$ = There is a positive relationship between working condition and employees' performance.

$H_0$ = There is no positive relationship between working condition and employees' performance.

$H_2$ = There is a positive relationship between performance bonus and employees' performance.

$H_0$ = There is no positive relationship between performance bonus and employees' performance.

$H_3$ = There is a positive relationship between salary and employees' performance.

$H_0$ = There is no positive relationship between salary and employees' performance.

## Research Methodology

### Type of research

Descriptive research design was adopted to examine the impact of extrinsic rewards on employee's performance in Habib Bank Limited. This design is chosen to know whether the prevalent reward strategy have any impact on the employees' performance [9-11]. The independent variable is extrinsic rewards and the dependent variable is the employees' performance and the causal effect between these variables is been examined. This is a field study because no factors have been controlled in this research. Data has been collected for a single point of time so it is a cross sectional study.

### Population and sampling

As this study examines the impact of extrinsic rewards on employee performance, the employees of the Habib Bank limited in Pakistan has been taken as target population [12]. Simple random sampling technique was used to select the study subjects. This sampling technique was selected just because easy access to the respondents. A sample of 154 respondents was used which includes both male and female respondents.

### Data collection methods

Both primary and secondary sources were used for data collection. For Secondary source data was collected from articles, journals, websites and case studies and questionnaire was used as a primary source [13]. Questionnaire developed by Qureshi, Zaman, Shah, was selected for the purpose of present research. Questionnaire contains close-ended questions which were used for collecting data from the respondents. Parameters for measuring extrinsic rewards are working condition, performance bonus and salary. Five point Likert Type Scale ranging from 1 (strongly agree), 2 (Agree), 3 (Neutral), 4 (Disagree), 5 (strongly disagree) was used to measure responses.

### Data analysis

Software that was used for data analysis was Statistical Package for the Social Sciences (SPSS). Different statistical tests were applied such as; Frequency Analysis Descriptive Analysis and Regression analysis [14,15]. To present the overall picture of the variables Bar chart and Pie Charts were used for graphical representation of the data.

## Analysis and Interpretations

### Frequency

**Working condition:** The numbers of employees who agreed with that the working conditions enhance their performance provided by the banks to their employees are (47.38%). In the second question the most employees aggregating to 66.7% denied that their organization provides freedom of opinion to them and 67.5% has agreed that

Organization working environment is supportive and impact their performance positively (Table 1).

**Salary:** We can analyze that 81.2% employees has agreed that the organization does asses periodical salary increment. However 58.4% has agreed that organization gives salary on time to them. 41.5% of the employees have agreed that their salary is equivalent to their job task (Table 2).

**Performance bonus:** Total 106 employees have agreed that Organizational provides performance bonuses to boost their motivation. However 42.8% has agreed that the Organization recognizes extra effort with bonuses Employees have disagreed that they are not provided with bonuses for their individual performances (Table 3).

### Correlation analyses and regression analysis

**Correlation Analysis:** From Table 4 we can analyze that correlation

between salaries and working condition is significant as the figure is less than 0.05. The correlation is 0.656 as the value is not close to one we can say that there is a moderate correlation between the two variables. The correlation between performance bonuses and salary is significant.

### Limitations

Due to the limited time and available resources this study was limited to employees of HBL working in several branches of Lahore. There are many factors which effect employee performance but in this study a brief look was given on extrinsic rewards.

### Discussion and Conclusion

The study has revealed the factors that Salary and working conditions impact the employee performance. The employers should try to focus on the factors which can motivate employees and enhance their performance.

Description	Organization working condition enhances your performance		Organization provides freedom of opinion in this decision making		Organization working environment is supportive	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Strongly Disagree	13	8.4	23	14.9	12	7.8
Disagree	40	25.97	69	51.8	36	23.4
Neutral	28	18.2	7	4.5	2	1.3
Agree	47	30.5	31	13.1	82	53.2
Strongly Agree	26	16.88	24	15.6	22	14.3
Total	154	100.0	154	100.0	154	100.0

Table 1: Working condition.

Description	Organization asses your chances of salary improvement periodically		Organization gives salary on time which motivates you to perform better		Organization gives salary equivalent to your job task	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Strongly Disagree	0	0	4	2.6	27	17.5
Disagree	12	7.8	29	18.8	37	24.0
Neutral	17	11.0	31	20.1	16	10.4
Agree	60	39.0	69	44.8	61	40.9
Strongly Agree	65	42.2	21	13.6	11	7.1
Total	154	100.0	154	100.0	154	100.0

Table 2: Salary.

Description	Organizational provides performance bonuses to boost your motivation		Organization recognizes your extra effort with bonuses		Organization gives bonuses on individual performances	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Strongly Disagree	16	10.4	31	20.1	43	27.9
Disagree	20	13.0	35	22.7	50	32.5
Neutral	12	7.8	32	20.8	5	3.2
Agree	87	56.5	43	27.9	29	18.8
Strongly Agree	19	12.3	13	8.4	27	17.5
Total	154	100.0	154	100.0	154	100.0

Table 3: Performance bonus.

		Salary	Working Condition	Performance Bonuses
Salary	Pearson Correlation	1	-0.103	0.102
	Sig. (2-tailed)		0.043	0.208
	N	154	154	154
Working Condition	Pearson Correlation	-0.103	1	0.125
	Sig. (2-tailed)	0.043		0.123
	N	154	154	154
Performance Bonuses	Pearson Correlation	0.102	0.125	1
	Sig. (2-tailed)	0.208	0.123	
	N	154	154	154

Table 4: Correlation analysis.

## Questionnaire

### Environmental factors affecting job satisfaction of employees at banking sector of Pakistan

I am a student of MS Applied Accounting from University of Central Punjab Lahore. I am conducting a research on IMPACT OF EXTRINSIC REWARDS ON EMPLOYEES' PERFORMANCE at Banking Sector of Pakistan. You are requested to help us by filling this questionnaire. Your response will be highly appreciated. As per ethics our data will be kept confidential.

### Demographic Information

Name: Gender: Experience: Organization:

### Qualification

1. Post Graduate 2. Master 3. Bachelor 4. Any Other

### Scale

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

Sr No	Items	Scale				
		1	2	3	4	5
<b>Working Condition</b>						
1	Organization working condition enhances your performance	1	2	3	4	5
2	Organization provides freedom of opinion in this decision making	1	2	3	4	5
3	Organization working environment is supportive	1	2	3	4	5
<b>Salary</b>						
4	Organization assesses your chances of salary improvement periodically	1	2	3	4	5
5	Organization gives salary on time which motivates you to perform better	1	2	3	4	5
6	Organization gives salary equivalent to your job task	1	2	3	4	5
<b>Performance Bonuses</b>						
13	Organization provides performance bonuses to boost your motivation	1	2	3	4	5
14	Organization recognizes your extra effort with bonuses	1	2	3	4	5
15	Organization gives bonuses on individual performances	1	2	3	4	5

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