

The Effects of Intrinsic and Extrinsic Rewards on Employees' Performance

Kesan Ganjaran Intrinsik dan Ekstrinsik terhadap Prestasi Pekerja

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Article progress

Accepted: 5 November 2020

Reviewed: 26 April 2022

Published: 31 May 2022

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Abstract: The requirements for success and the achievement of the planned goals, force companies and institutions to optimize the utilization of the employees, especially those who have acquired experience in their field of work within a specific work environment. In order to make sure the employees are continuously in high momentum and performance, the employees must be given sufficient rewards. This conceptual paper discusses on the employees performance and how it is influenced by rewards. In an occupational sector, rewards can be classified into two categories, which are intrinsic rewards and extrinsic rewards. Various literatures were studied and analyzed. The study found that most of employees performance, either positive or negative were influenced by the rewards they received.

Keywords: Intrinsic Rewards, Extrinsic Rewards, Employees performance;

Abstrak: Keperluan untuk meraih kejayaan dan mencapai matlamat yang dirancang, memaksa syarikat dan institusi untuk mengoptimumkan penggunaan pekerja, terutamanya mereka yang telah memperoleh pengalaman dalam bidang kerja mereka dalam persekitaran kerja tertentu. Bagi memastikan pekerja sentiasa berada dalam momentum dan prestasi yang tinggi, pekerja mesti diberi ganjaran yang mencukupi. Kertas konsep ini membincangkan tentang prestasi pekerja dan bagaimana ia dipengaruhi oleh ganjaran. Dalam sektor pekerjaan, ganjaran boleh dikelaskan kepada dua kategori, iaitu ganjaran intrinsik dan ganjaran ekstrinsik. Pelbagai literatur telah dikaji dan dianalisis. Kajian mendapati kebanyakan prestasi pekerja, sama ada positif atau negatif dipengaruhi oleh ganjaran yang mereka terima.

Kata kunci: Ganjaran intrinsik, Ganjaran ekstrinsik, Prestasi pekerja;

Introduction

With the increasing challenges in the work environment, the requirements for success and the achievement of the planned goals, companies and institutions must maintain their staff, especially employees who have acquired experience in their field of work within a specific work environment. Recently, with the advancement of technology, the consumer has become clearly aware of the commercial and service fields, which make

companies, need to choose competencies and skills from among these consumers (Torrington et al. 2009).

Employing people with high experience or creative talents and capabilities is a competitive advantage and at the same time it is a challenge for institutions and companies (Armstrong, 2013). According to Armstrong (2013), the reward system is one of the programs and methods of praise and encouragement for the employee who works with distinguished and high performance, and to provide incentives for the employee who works with low performance in order

to increase his level of performance later.

Moreover, reward systems are recognized as one of the most important tools that increase employee satisfaction. From a manager's point of view, the reward system aims to shape employee behaviors toward their jobs and the company in general (Griffin & Moorhead, 2013). Rewards are given to employees who perform their tasks in the required manner or in an unprecedented way or exceed the managers' imagination, and thus, that makes them a motivating role model for the rest of the staff to work hard and actively. This paper examines the effect and relationship of types of rewards on employee performance, which may be used in future studies in improving the performance of employees of companies and institutions.

Literature Review

Performance

Performance can be defined as organization of a program of action to attain their objectives, and how to achieve a precise goal for a measure (Kalleberg, 2017). The performance of employees is expressed in achieving results and standards close to the expectations of the institution's management. The classification of cleaners is based on their performance of tasks by comparing them with specific and fixed performance standards. Accordingly, the accomplishment of an employee for a task is measured according to criteria of quality, cost, and speed, as well as creativity in problem solving and the way they use resources, time and energy (Rothman & Coetzer, 2015).

Measuring performance is essential to the incentive plan because it communicates the importance of specific organizational goals, as 'what is measured and rewarded grabs attention' (Bohlander, Snell & Sherman, 2001). In a timely manner, it is measured in terms of the speed of work performed by the employee when giving a specific task; absence / delay is observed when employees are absent from work; and the achievement of the goals that were measured when the employee exceeded his / her specific goals, he / she is a good performance to achieve targets (Hakala, 2008; Armstrong, 2006).

Performance can also be measured by different performance appraisal methods, including goal management (MBOs), behavior-related assessment metrics (BARS), assessment centers, and the cost accounting method among modern methods. Numerous ancient and recent studies concerned with

the study of employee performance and its relationship to variables such as customer satisfaction and leadership (Ahearne, et al. 2005), leadership, resistance, empowerment, satisfaction and performance (Vecchio, et al. 2010), empowering leadership, goal orientation and performance (Wong, et al. 2014), turnover and performance (Hakala, 2008; Armstrong, 2006), commitment, engagement and performance (Nazir & Ul Islam (2017), and learning and performance (Van Der Veegt & Bunderson, 2005).

Factors Influencing the Employee's Performance

There is no doubt that the incentives and rewards system is one of the factors that affect the performance of employees, as many previous studies indicate that motivating employees leads to this purpose. A study by Abbas and Hammadi (2009) entitled "Incentives and Their Impact on Performance" with the aim of identifying the incentive system and its role in enhancing the performance of workers in the Yemeni Oil Exploration Authority, shows weak staff participation is due to lack of tangible incentives, such as bonuses and rate.

A similar study by Hammam, A. and k. AL-MaQableh, (2005), that helps in achieving job satisfaction for Jordanian hotel staff. The study shows that the management method is the first factor in improving job satisfaction while the least effective factor was the hotel compensation system.

Moreover, another study conducted by (Njanja, et al. 2013) recommends to focus on efforts and the impact of rewards on employee performance. Ajila and Abiola (2004) suggested in their own study that more research should be done on the impact and reward of relationships on employee performance using many private and public organizations.

On the other hand, Al-Faris (2011) attempts to clarify the relationship between incentives methods used in four public institutions. There is a strong correlation between incentives and loyalty to the organization, which affects performance at work. The study recommends devoting more attention to developing incentives granted to employees to employ them to become the institute's activists.

Al-Nisour (2012) conducted a study aimed at examining the impact of financial and moral incentives on the organizational performance of Jordanian university employees. This study aims to identify the role of Jordanian universities in meeting the social needs of employees, knowing the approach to applied incentives, and knowing the level of performance in Jordanian universities. The study found that there is an adequate level of incentives

provided to employees. Financial incentives came first, while moral incentives came second.

Rewards

One of the definitions of reward is an external factor that is managed to carry out the desired tasks, which is adopted by private institutions or the government as incentive tools for employees if they are presented in private companies or in the government sector (Rys, 2007). Rewards can be extrinsic or intrinsic. Extrinsic rewards are all tangible rewards that can include salary or wages, incentives, rewards, promotions, job security, etc (Hafiza et al., 2011). Intrinsic rewards are kinds of rewards that cannot be touched as they emanate from the employee's own sense, such as appreciation and facing self-challenges within the work environment, positive and caring attitude from employer, and job rotation after attaining the goal (Hafiza et al., 2011).

According to Lawler (2013), a truly motivational reward system must be designed with a few parameters in mind. It must motivate employees to perform through valued and truly sufficient rewards, provide them with a clear line of sight, give them the power to influence their performance, and deliver on its promise. Rewards need to be contingent on achieving desired performance levels rather than on merely doing certain tasks. It should be meaningful and valuable to the individual based on objective and goals. Rewards are not based on competitive struggles within the workplace, between conditions in the workplace (extrinsic) and fulfillment of individual needs (intrinsic). However, Wilson (2013) argues that a reward system needs to have a positive impact on behaviour. The magnitude of rewards must satisfy the basic human needs of survival and security (Lawler, 2013). Lawler also discusses that organizations must choose relevant rewards over which they have the potential capability to provide to their employees. The distribution of rewards must be perceived as being done in a fair and equitable manner. Organizational members must perceive a link or contingency between their job performance and the rewards they receive. Therefore, the rewards used by an organization must be valued by the individual members of that organization. In the absence of these factors, the rewards programme will not motivate in the long term and will discourage risk-taking behaviour. Substantial rewards are alleged to have a positive effect on the exchange of knowledge by many authors.

Extrinsic rewards are often seen as a cash reward, direct payment, cash payment and / or extrinsic

reward (Bergmann & Scarpello, 2013; Chiu, Luk & Tang, 2001; Milkovich & Newman, 2008). Specifically, it consists of three main features: salary, bonus, and allowances (Lori et al., 2002; Tang, 2007; Young, 2013). Salary is often seen as a basic wage granted to employees on a weekly, monthly, or annual basis based on the job structure (such as the basic salary, but not including incentives) (Henderson, 2006; Young, 1999). The reward is usually seen as cash payments made to employees based on their performance for example, monetary incentives to achieve job goals (Bloom & Milkovich, 1998; Gupta & Shaw, 1998; Lowery et al., 2013). These income groups are designed to reward employees who perform a specific job or service (Anthony, Perry & Cakmar, 2002; Desler, 2006; Ismail, 2007). Income as an extrinsic reward is a critical component of the compensation management system (Drucker & White, 2000; Henderson, 2006; Mitchell & Mickel, 2013). Individuals participate in work related activities to achieve some diversity and size of extrinsic rewards. Some rewards, including wages, promotions, and company status, are external factors given by the organization. According to Self Determination Theory, the moral incentives of the two types of rewards are listed under extrinsic rewards and intrinsic rewards as detailed in Table 1.

Table 1. Extrinsic rewards and intrinsic rewards.

Extrinsic rewards	Intrinsic rewards
Direct payment	Engagement
Cash payment	Responsibilities
Bonus	Team planning
Upgrade	Program development

The Relationship between Rewards and Employee Performance

Extrinsic and intrinsic rewards motivate the employee to achieve a higher level of performance and productivity (Reio & Callahan, 2012). Employee performance is defined as the achievement of standards in terms of accuracy and completeness over a specific time period (Afshan et al., 2012). The level of employee performance depends not only on their actual skills, but also on the level of motivation individuals have demonstrated. A drive is an internal drive or an external lure that behaves in a certain way. In typical situations, this is a method that will lead to rewards (Barney, 2012). Highly qualified and talented employees are the driving force of all organizations, so it is essential that organizations strive to motivate and retain the best employees. The quality of human resource management has a critical impact on an

organization's performance (Dessler, 2012). Effective employees use their knowledge and skills to do their jobs right. All activities carried out by the employees of the institution, regardless of their departments, are interrelated and affect the general performance of the institution. Therefore, it is important for all department heads to realize that the ineffectiveness of staff under their supervision negatively impacts the performance of the organization as a whole. This poor performance reduces the organization's competitive advantage in the market (Chei et al., 2014).

Intrinsic Rewards and Employee Performance

According to Frey (2015), moral incentives include more firmness, recognition, and positive feedback that an employee provides to his manager, a higher position, and also more responsibility. Recognition is one of the main rewards that employees value greatly. Attention and evaluation can be a good incentive that encourages workers to continue to show better performance. Although extrinsic rewards boost the subsistence level, these core factors are equally powerful engines. Employees need motivation through work efficiency and a sense of loyalty and value. However, extrinsic and intrinsic rewards motivate the employee to achieve a higher level of performance and productivity (Reio & Callahan, 2015).

In general, the inner motivation obtained from a person or his movement influences performance and a feeling of well-being (Ryan & Deci, 2017). Other core rewards include free tea, flexible hours, movie tickets and holiday gifts. These types of benefits are evaluated by employees as they enhance working life. There are substantial rewards within the job itself. According to Ryan and Deci (2017), intrinsic rewards such as self-determination obtained from intrinsic motivation satisfy a person without any payments. Franken (2017) says that the reward for better performance or behavior is an extrinsic reward or motivation, while these rewards, similar to the point of view of reaching a job height, develop a fundamental motivation to do something more. Then, the individual designs a pathway or action plan to achieve this goal. In addition, the role of emotions is to enable individuals to develop their attitude and point of view, and to create steps for feelings of motivation to perform better.

According to Yukl and Flu (2017), delegation is the process of giving tasks to an employee and giving him full authority to make the assigned decisions for these tasks without consulting the manager. One of the important factors in enabling delegation to enable effective management of individuals is that it gives

them a business away from pressure and this motivates them to do more. The delegation has the advantage that it meets the managers' need for success and independence by providing incentives for more behavior and entrepreneurial motivation (Mintzberg, 2015). It reduces the duties of managers and makes the employee a trustworthy employee for manager roles (Yukl & Flu, 2015).

Another form of employee motivation that reflects positively on performance is empowerment. Empowerment is the process of controlling and feeling independent at work and without any external controls (Deci & Ryan, 2017). It is the degree of authority subordinate has. Empowering others is the ability of leaders that allows them to strengthen and develop their constituents by sharing power, highlighting, and giving credits to their employees (Kouzes & Posner, 2017). It is the power that managers give to subordinates. Kouzes and Posner (2017) describe empowerment as when leaders are able to develop their employees by giving them powers or sharing power, which could increase employee performance. Empowerment is a pioneering factor in raising quality and increasing productivity (Sandbulte, 1992). Empowerment is an effective strategy to motivate workers or employees to increase job satisfaction and loyalty and thereby increase performance (Lister, 2004; Payal, 2005). Empowerment also works when employees need the organization as often as they need it (Johnson, 1993). Empowering people is a good factor for employee development by allowing them to do very well by investing in themselves, even at the risk of making mistakes (Page & Wong, 2000). To reach the empowerment level, leaders must provide the protection, guidance, advice, tools and all other resources needed to ensure knowledge management and development.

On the other hand, the employee must have a feeling and attitude towards 'I can do', and the leader must reflect that feeling rather than criticize quickly. Leaders must train, support, and assist the employee's nature and improve their competencies. Emotionally, leaders must be responsible for generating interest and hope. This emotion will cause a fundamental drive that will increase performance (Goleman, Boyatzis & McKee, 2004).

Another factor related to intrinsic reward and employee's performance is an achievement. Ziegler, et al. (2009) argue that the need to accomplish is one of the biggest drivers of employee performance. Zhou (2011) defines achievement as the ability to obtain results based on specific goals or objectives.

Employee accomplishments fall into different categories: confidence in success, perseverance, goal setting and commitment. Tremblay et al. (2010) believe that employee confidence in success enhances their need for achievement. Ziegler, et al. (2009) assert that persistence is one of the main factors contributing to employee achievement. The employee's ability to persevere and continue to hard to improve both personal and organizational goals enhances his ability to perform. Employees who set performance goals and work to ensure that these goals are achieved have a higher level of intrinsic motivation to achieve them, compared to those who do not. One of the reasons is that achievement is an inert individual desire that cannot be imposed on an employee; alternatively, it can be improved especially for those who are already self-motivated Redmond (2010). Therefore, managers strive to improve employee performance. Internal organizational mechanisms must be created that enable employees to plan effectively and track their performance goals (Zare, 2012).

Extrinsic Rewards and Employee Performance

Farooqui and Nagendra (2014) define extrinsic rewards as compensation for employees in the form of fringe benefits, payments and other tangible benefits that employees receive from an organization to achieve specific goals, or just because they are part of the organization. In most hospitality organizations, extrinsic rewards take the form of salaries and wages, payment of annual leave, payment of leave in addition to annual rewards (Siti-Nabiha et al., 2012). The hospitality sector is very competitive and requires employers to formulate attractive rewards for current and potential employees. Burton (2012) argues that extrinsic rewards are important because they play an important role in motivating employees to perform.

Extrinsic rewards systems are designed based on the organizational process for performance structures that determine the level of employee compensation. Therefore, it is necessary to view remuneration systems as being fair to all employees in terms of operations, rules, regulations and remuneration mechanisms (Pratheepkanth, 2011; Lotta, 2012). Burton (2012) assumes that management decisions in awarding employee compensation must be above all else. When employees feel that their organization is fair in awarding extrinsic rewards, they are committed to organizational performance and sustainable development.

Wages and salaries are the monthly payments that

employers pay their employees for the services provided based on contractual agreements (Boselie, Dietz & Boon, 2015). The terms salaries and wages are often used interchangeably, referring to the financial rewards that employees give to employees. But salaries and wages are not the same. Salaries are payments or compensation to permanent employees, or to long-term contractual employees, while wages are payments to temporary or short-term contractual employees (Pratheepkanth, 2011). In the hospitality sector, salaries and wages are sometimes used to enhance organizational competitiveness, fairness, and motivation for employee performance.

Corby, White and Stanworth (2015) argue that while hospitality sector companies use salaries and wages to promote equity and fairness in their employee compensation, they are not strong enough as factors to enhance employee motivation towards performance enhancement. Pratheepkanth (2011) equally argues that salaries and wages can only boost employee performance to a certain extent. Once the minimum for individual employees is reached, salaries and wages are no longer viewed as motivational, nor have the potential to improve performance. By offering similar ideas about insufficient salaries and wages, Dobre (2013) notes that salaries only boost employee performance when they still need security and financial stability.

However, when the employee feels financially stable and secure, salaries or wages are no longer a factor that stimulates or enhances his level of commitment or performance. Boselie et al. (2015) argue that salaries and wages have the potential to position an organization at a competitive level if the salaries and wages provided by the organization are more competitive than what other hostile firms offer. To attract and retain highly qualified employees who have the ability and skills to improve organizational performance, it is imperative that hospitality companies offer competitive salaries and wages (Nathani, 2010). According to Akanbi (2010), hospitality companies, just like other sector companies, have used salaries over many decades to reward not only the performance of employees, but also skills, knowledge and ability.

Contrary to the assertions of Corby et al. (2015) that salaries and wages do not boost employee performance, Rukhman (2010) and Zare (2012) argue that paying salaries in the hospitality sector is important to employee performance. They go on to say that if hotels in the hospitality sector don't pay their employees well; they become frustrated, which leads not only to poor performance, but also to a high

turnover. Burton (2012) argues that although salaries and wages greatly enhance employee performance, the impact on employees is often measured from low cadres and rarely at mid-to-senior level are that salaries no longer a driver of performance. They are further driven by other benefits such as vacation, insurance and mortgage.

Paid leave is another part of extrinsic reward that extends to employees as a way to motivate them to perform (Tippet & Kluvers, 2010). Burton (2012) defines paid leave as incentives offered by employers, the employees are in full paid form of a vacation designed to make them take a break from work. Lotta (2012) conducted a study in the United States of America on the effects of paid leave on senior managers in the hotel sector including four and five-star hotels such as Marriott, Hyatt Regency, Sheraton, Holiday Inn, and Hilton.

The relationship between paid vacations and the performance of senior managers The study did not cover all employees, and thus was criticized by Boselie et al. (2015) who argued that the experiences and perspectives of high-level managers do not necessarily reflect the feelings of the majority of employees, who often work in supervising lower-level jobs. In general, this study proves that rewards such as paid vacation increase the employee's performance in the long run, and municipalities are the same as in the service sectors.

Conclusion

This paper is part of a research study under investigation that seeks to contribute knowledge about the effect of rewards and incentives under specific circumstances. In conclusion, the performance of employees are very much influenced by the rewards that they receive, either in kinds of extrinsic or intrinsic. In order to make sure the employees perform well and consistently contributing to the organization, rewards play a big role and must be come the priority to all organizational managers and leaders.

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