



# **Impact of Rewards on Employee Performance: With Special Reference to ElectriCo.**

Waruni Ayesha Edirisooriya<sup>a</sup>

<sup>a</sup>University of Peradeniya, Sri Lanka. aeshsooriya@gmail.com

## **Abstract**

Human resource is considered as a strategic asset in any organization because the accomplishment of an organization's objectives largely depends on employees. Therefore, it is important to identify factors which motivate employees for achieving goals. The objective of this study is to illustrate to what extent does employee rewards have an impact on employee performance in a public sector organization in Sri Lanka. Hence, this study has examined the relationship between extrinsic reward, intrinsic reward and employee performance in ElectriCo. In order to accomplish the research objectives, quantitative research design was carried out under the deductive approach. Self designed questionnaire was used as the primary data collection method. The data was analyzed using descriptive statistics and inferential statistics. The results revealed that there is a positive relationship between extrinsic reward, intrinsic reward and employee performance. The research results can be used as a guideline for the public sector organizations in Sri Lanka to have better understanding of significance of reward system on employee performance and furthermore it will help to design and implement strategic reward system to bring competitive advantage. The result derived from the current study is restricting the generalisability to the wider population since the study focused on one public sector organization in Sri Lanka. In the light of the findings, recommendations are outlined.

**Keywords:** *employee performance; extrinsic rewards; intrinsic rewards*

## **1. Introduction**

Human resource provides basis for an organization to achieve sustainable competitive advantage. Since organizations are operating in a dynamic and competitive business environment, they need to develop strategies to acquire and retain the competent workforce. Nowadays, human asset considered to be the most important asset of any organization and in order to get the efficient and effective result from human resource motivation is necessary (Zaman, 2011). Baron (1983) defined motivation as a set of processes concerned with the force that energizes behavior and directs it towards attaining goals. Therefore many approaches such as goal setting approaches, measurement and feedback approach, job design approach and reward and recognition approach have been developed and adopted in the world with the aim of increasing employee performance. On the other hand Hafiza et al (2011) pointed out that working conditions, worker and employer relationships, training and development, job security and companies overall policies and procedures for rewarding employee have an impact on employee performance. However a large number of researches (Pratheepkanth, 2011; Qureshi et al, 2010; Deeprose, 1994; Zaman, 2011) have divulged that reward system causes satisfaction of employee, which directly influences the performance of the employee.

According to Barattton (1999) rewards refer to all form of financial returns and tangible services and benefits and employee receives as part of an employment relationship. "Reward is the benefits that arise from performing a task, rendering a service or discharging a responsibility" (Colin, 1995). According to Searle (1990), rewards can be categorized into two broad areas, namely extrinsic rewards and intrinsic rewards.

Extrinsic rewards are usually financial or tangible rewards which include pay, promotion, interpersonal rewards, bonuses and benefits (Zaman, 2011). Stoner and Freeman (1992) defined intrinsic rewards as the psychological reward that is experienced directly by an employee. The aim of this paper is to identify the relationship between extrinsic rewards, intrinsic reward and employee performance of a public sector organization in Sri Lanka.

Ajila and Abiola (2004) revealed that reward package can influence on employee performance. Base on their findings they concluded that reward system helps to increase employee performance by enhancing employee skills, knowledge and abilities in order to achieve organizational objectives. According to the Allen and Kilmann (2001), reward practices play a vital role in improving employee performance and to achieve organizational goals. As mentioned earlier, many researchers have identified that employee rewards directly attach to employee performance. According to the available literature (Eisenberger, 2011; Heng, 2012), they identify, if organization fails to reward employees, it will directly affect to decrease employee performance and an efficient reward system can be a good motivator but an inefficient reward system can lead to demotivate the employees in terms of low productivity, internal conflicts, absenteeism, high turnover, lack of commitment and loyalty, lateness and felling grievances. Therefore, organization needs to develop strategic reward system for employees in order to retain competent employees which result to obtain sustainable competitive advantage.

ElectriCo is a public sector service oriented organization established in 1968. Public sector organizations play a vital role in the society and therefore motivation is particularly necessary for the government organizations. This is due to public employees involve face to face interaction with the citizens and communities in order to provide public services timely and effectively. From the competitive advantage perspective, organizations need to identify and understand the link between rewards and employee performance with the intention of achieving competitive advantage. When compared to private sector organizations, remaining in the competition is not an easy task for public sector organizations since private sector organizations' reward policy is more strategic oriented. Sourthen (2013) explains that private sector organizations always try to align their reward strategy with the human resource strategy which finally leads to create an integration between reward strategy and organization's business strategy. Therefore this study intended to elaborate the role of public sector reward system in the strategic perspective through investigating to what extent does employee rewards have an impact on employee performance in ElectriCo?. Accordingly the objectives of this study are,

1. To identify the relationship between rewards and employee performance in ElectriCo.
2. To assess the effectiveness of existing reward system
3. To make suitable recommendations to make current reward system more effective.

Based on the above objectives present study seeks to test the following hypotheses.

H<sub>1</sub>: there is a positive relationship between extrinsic rewards and employee performance.

H<sub>2</sub>: there is a positive relationship between intrinsic rewards and employee performance.

The significance of this study would be emphasized an idea about relative importance of extrinsic and intrinsic reward on employee performance. There are many empirical studies (Allen & Kilmann, 2001; Ajila & Abiola, 2004; Zaman, 2011, Trittle & Muller, 2011) have been conducted researches on reward system and employee performance. Regarding the previous researches and studies, scholars have considered relationship between financial rewards and the employee performance. However many researchers (Taljaard, 2003; Frey, 1997; Snell & Bohlander, 2007) have argued money is not the only motivator which helps to employees to enhance their performance. Despite the vast research on the impact of reward in private sector organizations

(Heng, 2012; Mikander, 2010; Taljaard, 2003; Agwu, 2013), a small number of researchers have investigated the case of public sector organizations. (Yavuz, 2004; Wright, 2012; Hasim, 2011) The significance of this study is to fill the gap in reward literature in the context of public sector organization and to identify what kind of rewards the public sector employees in Sri Lanka value most and it aims to explore the attitudes of employees towards reward policy of their organization. This study is also important as it is relevant for understanding the public employees' reward preferences. To conclude, the results of the study may be helpful for exploring the utilization and motivational potential of the reward management in the public sector of Sri Lanka.

## **2. Literature Review**

According to Zaman (2011), Human resource is the most important factor which brings competitive advantage by contributing their knowledge, skills and capabilities to the organization. The existing literature reveal that human resource can be preserved within the organization and optimally utilized through inspiring it using different strategies such as working condition, leader's influence, training and development, learning culture, organization reputation and rewards. Among those strategies reward is a key factor. (Agwu, 2013; Heng, 2012; Yapa, 2002). According to Pitts (1995) Reward is the benefits that arise from performing a task, rendering a service or discharging a responsibility. "The principal reward for performing work is pay, many employers also offer reward packages of which wages and salaries are only a part. The packages typically include: bonuses, pension schemes, health insurance, allocated cars, beneficial loans, subsidized meals, profit sharing, share options and much more" (Agwu, 2013).

Reward can be broadly categorized in to two groups namely, intrinsic rewards and extrinsic rewards. Extrinsic rewards are usually financial or tangible rewards. Ajils (1997) delineated that intrinsic rewards are inherent in the job itself and which the individual enjoys as a result of successfully completing the task of attaining his or her goal. He further explained that extrinsic rewards are those external to the task of the job such as pay, work condition, fringe benefits, security, promotion, contract of service, and the work environment. Based on Abiola and Ajila's (2004) findings, intrinsic rewards can be terms as 'psychological rewards and examples are opportunity to use one's ability, a sense of challenges and achievement, receiving appreciation, positive recognition, and being treated in a caring and considerate manner. Besides Yapa (2004) classified pay, promotion, interpersonal rewards, status, and fringe benefits as extrinsic rewards and responsibility, achievement, autonomy, personal growth, challenge, complex work and feedback characteristics of the job as intrinsic rewards.

According to the Armstrong (2008), performance management is a systematic process for improving organizational performance by developing the performance of individuals and teams. He further explained it is means of getting better results by understanding and managing performance within an agreed framework of planned goals, standard and competency requirements. In addition to that Armstrong and Murlis (1994) define performance management as "a process or set of processes for establishing shared understanding about what is to be achieved, and of managing and developing people in a way which increases the probability that it will be achieved in the short and longer term." To measure employee performance organization s use performance appraisal in order to ensure of achievement of goals. Organizations measure under Employee performance employee productivity, job quality, job accomplishment, willingness to exert extra effort, commitment and goal achievement. (Yapa, 2002; Dharmasiri and Wickramasinghe, 2006; Taljaard, 2003)

Mehmood (2013) points out rewards play a vital role on increasing employee rewards and change the behavior of dissatisfies employees. A well as he elucidates a fair reward system could build job satisfaction and productive behavior in employees. Reward system helps to improve organizational performance as well as it fulfills other objectives such as legal compliance, labor cost control, perceived fairness towards employees and enhancement of employee performance to achieve high level of productivity and customer satisfaction. (Maire & Nick, 2002). Carraher et al (2006) advocate that there should be an effective reward system to retain the high performers in the organization and reward should be related with their productivity.

Hartle (1995) points out that reward is an important part of the feedback loop in performance management. Mehmood (2013) explicates reward system is the requirement of any organization to retain and hire the most suitable employee to gain competitive edge in a competitive environment. He further explains that reward system inspiring the employee to work harder and faster because employee needs motivation to put extra effort on their task. Finally he concludes that reward system should match with the organizational culture and the strategy in order to achieve sustainable competitive advantage.

Reviewing all these empirical studies and findings, researcher can conclude that a good remuneration which ties extrinsic and intrinsic rewards to individual performance bring higher productivity. When management makes decisions on what types of rewards to implement and they should identify the aims of their reward policy. All these observations suggest the need for a strategic reward system to increase employee performance with the ultimate goal of achieving competitive advantage.

This study examines the impact of extrinsic and intrinsic rewards on employee performance in a public sector service organization. Employee performance is taken as dependent variable and extrinsic and intrinsic rewards are taken as independent variables. In independent variable, extrinsic rewards represent four dimensions which are pay, bonus, benefits and promotion. Intrinsic rewards embody recognition, career advancement, responsibility and learning opportunity. Hypotheses were developed and tested based on the conceptual framework.

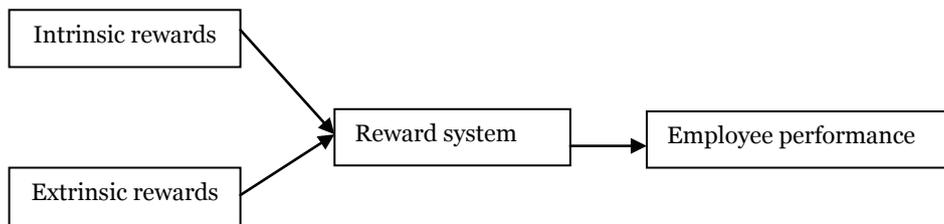


Figure 1: Conceptual framework

Based on the empirical researches, (Yapa, 2002; Zaman, 2011; Qureshi et al, 2010; Hashim, 2011) most tested extrinsic reward variables are pay, bonus, benefits and promotions and intrinsic variables are recognition, career advancement, responsibility and learning opportunity. Therefore the current research focused to identify the impact of the above extrinsic and intrinsic variables on employee performance.

### 3. Methodology

The concepts and variables with associated indicators and measures are illustrated in table 1. The questionnaire is designed to test each variable with the above indicators using five point Likert scale. Quantitative research design was carried out under the Deductive approach. Self designed questionnaire was used as the primary data collection method and secondary data collection methods were organization's annual reports, books, journal articles and online references. The aim of this research is to identify the impact of extrinsic and intrinsic reward on employee performance in a public sector organization. The representative sample of 100 employees are selected from a population of 1075 employees in the ElectroCo. For the convenience of the research, the sample was only selected from the Kandy District which covers 5 subunits. Stratified random sampling method is used to select balance representation of employees. And the sample represents every level of employee category including top level, middle level and bottom level.

#### **Sampling framework**

Table 2 illustrates the proportionate stratified simple random sampling. This sampling design is more efficient than the simple random sampling because for the same sample size, each important segment of the population is better represented, and more valuable and various information is obtained with relevant to each

sub category. Questionnaire is developed based on the research hypotheses. The aim of questionnaire is to capture the data and information required to establish the parameters of the model, the relationship between the independent and dependent variables, evaluate the final model and hypotheses. This questionnaire has divided in to two parts. The first part is containing socio-demographic questions and the second part consists questions related to variables that are extrinsic and intrinsic rewards and employee performance. Five points Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) was used to measure responses. The data was analyzed using descriptive analysis and inferential statistics.

Table 1: Operationalization of variables

Concept	Variable	Indicator
Extrinsic rewards	1. Pay	Salary scale based on the job categorization
	2. Bonus	Rupees (amount an employee receives for their contribution)
	3. Benefits	Rupees (amount an employee receives for their contribution)
	4. Promotions	Number of promotion for a year
Intrinsic rewards	1. Recognition	Employee attitudes regarding Fairness in appraising performance
	2. Career advancement	Possibility of Career advancement opportunities (High or low)
	3. Responsibility	Given responsibility are matched with the employee capabilities
	4. Learning opportunity	Availability and support from organization to learn (High or low)
Employee performance	1. Employee Productivity	Whether the employee productivity is increased or decreased with the changes of the employee rewards.
	2. Job accomplishment	Achievement of assigned targets within the given time duration

Source: Developed by researchers based on Dharmasiri and Wickramasinghe (2006) and Pretheepkanth (2011)

Table 2: Sampling farmework

Section	Population	Proportionate sampling	Stratified	Sample
DGM office	256	$256/1075 * 100 = 23.8$	$0.238 * 100$	24
P-city	192	$192/1075 * 100 = 17.9$	$0.179 * 100$	18
Planning & D	238	$238/1075 * 100 = 22.1$	$0.221 * 100$	22
Com & corporate:	232	$232/1075 * 100 = 21.6$	$0.216 * 100$	21
Maintenance	157	$157/1075 * 100 = 14.6$	$0.146 * 100$	15
<b>Total</b>	<b>1075</b>			<b>100</b>

#### 4. Results and Discussion

Descriptive statistics in the form of arithmetic means and standard deviations for the independent variables and dependent variables for the respondents were computed and presented in Table 3. It shows that the mean for pay, bonus, benefits, promotion, recognition, career advancement, responsibility and learning opportunity from a low 2.9464 to a high of 4.0500. The responses of pay, bonus, promotion and employee performance show that employees consider these factors slightly important than other factors as mean value is greater than 3.5. Standard deviation of career advancement and learning opportunity shows that these variables have extensive responses than its mean as value indicates 1.24 and 1.33 respectively.

##### *Extrinsic rewards and employee performance*

The results reported in the table 3 shows that pay ( $r=0.781$ ,  $p < 0.01$ ) has a very strong relationship on

employee performance. It means that an increase or decrease in pay will bring corresponding changes on employee performance. As well as it shows bonus, benefits and promotion and employee performance have strong relationship which have correlation values of ( $r=0.549$ ,  $p < 0.01$ ), ( $r=0.563$ ,  $p<0.01$ ) and ( $r=0.653$ ,  $P<0.01$ ) respectively. According to the Pratheepkanth's (2011) findings, he also concluded that extrinsic reward has a positive impact on employee performance. As well as Newstrom and Davis (1997:167) supported money is a vital factor in extrinsic reward since money has always been important to employees because of the goods and services that it will purchase, it can be regarded as a status symbol, and it represents to employees what their employer thinks of them.

Table 3: Descriptive statistics of rewards and employee performance

<b>Variables</b>	<b>Mean</b>	<b>Std. Deviation</b>
Pay	4.050	0.767
Bonus	3.371	0.846
Benefits	3.657	0.893
Promotions	3.571	0.709
Recognition	2.946	0.851
Career advancement	3.286	1.241
Responsibility	3.235	0.645
Learning opportunity	2.909	1.337
Employee performance	3.986	0.476

Table 4: Extrinsic rewards and employee performance

<b>Variables</b>	<b>Pearson correlation (r)</b>	<b>Level of significance (p)</b>
Pay	0.781**	0.0000
Bonus	0.549**	0.0000
Benefits	0.563**	0.0000
Promotion	0.653**	0.0000

\*\* Correlation significant at the 0.01 level (2-tailed)

Table 5: Intrinsic rewards and employee performance

<b>Variables</b>	<b>Pearson correlation (r)</b>	<b>Level of significance (p)</b>
Recognition	0.699**	0.0000
Career advancement	0.645**	0.0000
Responsibility	0.367**	0.0000
Learning opportunity	0.558**	0.0000

\*\* Correlation significant at the 0.01 level (2-tailed)

### ***Intrinsic rewards and employee performance***

Above table 4 shows all the correlations between the intrinsic variables included in the study. The correlation was shown a strong relationship ( $r=0.699$ ,  $p<0.01$ ) between recognition and employee performance. Meanwhile responsibility showed a weak relationship towards employee performance ( $r=0.367$ ,  $p<0.01$ ). Therefore, overall finding showed that there is a positive and significant relationship between recognition, career advancement, learning opportunity and employee performance. Career advancement gives a great impact to the employees' performance (Feder, 1999). Armstrong (2008; p.36) emphasized the importance of the chance to grow as a means of rewarding people and therefore motivating them. Based on the Pratheepkanth (2011), he revealed that intrinsic reward plays a significant role in employee performance.

**Extrinsic, Intrinsic rewards and employee performance**

The Pearson correlation analysis was applied in order to test the hypotheses. Table 5 shows all the correlations between independent variables and dependent variable included in the study. The correlation coefficient was shown a strong relationship  $r=0.636$  between extrinsic rewards and employee performance. As  $p$  is  $0.00 < 0.05$ , can reject the null hypothesis. The alternative hypothesis ( $H_1$ ) was accepted. On the other hand, intrinsic rewards also showed a strong relationship  $r=0.567$  towards employee performance with the significant level less than  $0.01$ . When Pearson’s correlation coefficient is greater than  $0.05$ , the alternative hypothesis ( $H_2$ ) was accepted. Therefore, here  $p$  is  $0.00 < 0.05$ , can reject the null hypothesis. The research hypothesis ( $H_2$ ) was supported.

Table 6: Extrinsic, Intrinsic rewards and employee performance

<b>Variables</b>	<b>Pearson correlation (r)</b>	<b>Level of significance (p)</b>
Extrinsic rewards	0.636**	0.0000
Intrinsic rewards	0.567**	0.0000

\*\* Correlation significant at the 0.01 level (2-tailed)

The first hypothesis ( $H_1$ ) states the positive relationship between extrinsic rewards and employee performance and based on the results it was accepted. In this study, it is demonstrated that there is a very strong relationship between pay and employee performance. It proves that most of the employees in ElectriCo highly prefer monetary rewards irrespective of their position. Money is a measurement of employees’ accomplishments. According to the Herzberg’s model (1959), pay is viewed primarily as a hygiene factor which motivates employees towards the higher employee performance. The researcher believes that money is important to employees because it satisfies a number of their most important needs and a highly tangible way of recognizing employee contribution and their worth. The second hypothesis ( $H_2$ ) which states a positive relationship between intrinsic rewards and employee performance was accepted. The results illustrated recognition proves to have the strongest relationship to employee performance when compared to other intrinsic variables. Recognition is a powerful motivation factor because it helps employee to know how well they have achieved their objectives and whether their achievements are appreciated. Finally, based on the overall results both alternative hypothesis were supported and it implied that there is a positive relationship between extrinsic rewards, intrinsic rewards and employee performance. It means that extrinsic rewards and intrinsic rewards have significant impact on employee performance.

The research results can be used as a guideline for the public sector organizations in Sri Lanka to have better understanding of significance of reward system on employee performance and furthermore it will help to design and implement strategic reward system to bring competitive advantage. However the current study associates with the few limitations. The Sample size was too small and considered the Kandy district only. Present study focused on one public sector organization and findings may not be generalized to a wider sector such as public sector organizations in Sri Lanka. In this study focused on eight independent variables and it is recommended for future researches to include more variables such as flexibility, work-life balance, autonomy, supervision, work environment and profit sharing which are not analyzed in this current study. Furthermore, a more comprehensive study can be extended by comparing private sector organization with public sector organization to ensure that better generalize findings can be achieved.

**5. Conclusion**

Human resource provides the basis for an organization to achieve sustainable competitive advantage. Attracting and retaining competent workforce is a challenging task for every organization. It is illustrious that employee performance can be improved when employees are motivated to achieve their goals. The first objective of this research is to identify the relationship between reward and employee performance and based on

the findings it revealed that there is a positive relationship extrinsic rewards, intrinsic rewards and employee performance. It implies rewards offered to employees in ElectriCo are increased, and then there would be an equivalent enhancement in work motivation and employee performance. In order to attract and retain their workforce, ElectriCo needs to make improvements in their existing reward system by integrating reward strategy with human resource strategy. Moreover, ElectriCo has to consider reward as a performance motivator and a part of organization's business strategy. The study concludes that reward plays a vital role in employee performance in ElectriCo. Considering the fact that management of ElectriCo is the responsible party to develop an unique reward strategy with the aim of achieving sustainable competitive advantage.

*\*\* Due to confidentiality and request made by the authorized parties, Organization name has been changed.*

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