

## INFLUENCE OF INTRINSIC AND EXTRINSIC REWARDS ON EMPLOYEE PERFORMANCE: THE BANKING SECTOR OF PAKISTAN

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### ABSTRACT

*The study aims to investigate different factors determining intrinsic and extrinsic rewards in the light of Herzberg's two factor theory and their impact on banking employees' job satisfaction and job performance and endeavors to influence overall performance of the commercial banks of Pakistan. The thrust is to be able to generalize for all employees belonging to this sector, at least in Pakistan which is the setting of the study. Data was collected through short form of the Minnesota Satisfaction Questionnaire (MSQ) survey for measuring the level of satisfaction with intrinsic and extrinsic rewards, given to 200 bank employees in Pakistan, provides the basis for analysis and a total of 165 employees completed the questionnaire. Software that has been used for data analysis is SPSS v. 16.0. Both descriptive and inferential statistics were used to analyze the data. The statistical tools were aligned with the objectives of the research. For this purpose, the means and standard deviations of intrinsic rewards were computed and substantively interpreted. Pearson *r* was used to determine if there is a significant, positive association between each reward type and employee performance. Overall satisfaction of banking employees was assessed as satisfactory in while their self-rated performance was likewise rated as satisfactory. This shows respondents agree that intrinsic and extrinsic rewards increase overall job satisfaction and performance of employees.*

*The following intrinsic rewards were found significantly and positively correlated with self-reported employees' performance for the year: Security, Ability Utilization, Social Service, Variety, Moral Values, Activity, and Authority. On the other hand, the following extrinsic rewards were found to be significantly and positively correlated with employees' performance: Recognition, Supervision-Human Relations, Advancement, and Co-workers. It is suggested that equal implementation of HR policies regarding rewarding employees for enhancing their level of satisfaction at work should be ensured. The study will prove to be a milestone for the researchers, policy makers and students to properly understand the concepts of intrinsic and extrinsic reward system, employee job satisfaction, and their relationship effect on overall organization performance. Moreover the study also help the managers of government and non-government organizations the importance of effective implementation of appraisal policies regarding human resource. Previous research on employee job satisfaction in terms of rewards has focused mainly on advanced countries. This study not only focused on job satisfaction but also employees' overall performance in terms of two types of rewards i.e., intrinsic and extrinsic rewards. Thus, this study contributes to the literature by investigating this topic in an Asian context and offering implications to managers working in the banking industries of developing countries.*

**Keywords:** Intrinsic and Extrinsic Rewards, Herzberg's Two Factor Theory, Job Satisfaction, Performance, Banking Industry, Pakistan.

## INTRODUCTION

In Pakistan the concept of HR is also flourishing day by day and employers as well as the employees are getting awareness of their rights and demands. The service sector in Pakistan's economy has started to grow recently and among the financial market banking sector is one of the most growing service sector in Pakistan. The paradigm shifted from a financial sector to a services sector where providing quality service to the customer became the ultimate goal of the bank. Due to heavy inflow of multinational banks in Pakistan, they brought a new culture in the banking sector which was based on performance based rewards and compensations. This has brought higher employment opportunities, increases in income level, and changes in consumption pattern and consequently there emerges a competitive environment in the industry.

Employee satisfaction is thought to be one of the primary requirements of a well-run organization and considered an imperative by all corporate managements. Locke (1976) defined job satisfaction as "a pleasurable or positive emotional state, resulting from the appraisal of one's job experiences."

According to Dewhurst et al. (2010) there are other means to reward employees that do not just focus on financial compensation. Some of these include the praise that employees are able to acquire from their managers, the opportunity to take on important projects or tasks, and even leadership attention.

In 1959, Frederick Herzberg, a behavioral scientist proposed a two-factor theory or the motivator-hygiene theory. According to Herzberg, there are some job factors that result in satisfaction while there are other job factors that prevent dissatisfaction. According to Herzberg, the opposite of "Satisfaction" is "No satisfaction" and the opposite of "Dissatisfaction" is "No Dissatisfaction".

According to La Belle (2005) different individuals have different perceptions of rewards. For instance, some employees consider being recognized by their leader as more rewarding than financial incentives. Herzberg believes that such factors are the main driving force of satisfaction and that they help boost the employee to work harder and better, due to the motivation that is brought about. Put simply, motivators are able to increase internal happiness (intrinsic rewards). On the other hand, hygiene factors are only able to boost external happiness (extrinsic rewards). If there are missing factors (whether they may be hygiene factors or motivation factors), it is possible for the employee to be dissatisfied and not able to perform in the best way that they can. If all the hygiene factors are present and even when there are more than enough of hygiene factors present, then it is possible that the employee would still not be motivated. Thus, in order for managers to successfully motivate their employees, there is a need for them to determine the appropriate and the sufficient motivation factors to use.

## AIMS AND OBJECTIVES

Through this study by using Herzberg's Two Factor Theory, the researcher plans to:

1. To determine the level of satisfaction of banking employees on their intrinsic rewards.
2. To ascertain the level of satisfaction of banking employees on their extrinsic rewards.
3. To identify the intrinsic and extrinsic rewards that is positively correlated with employee performance in the banking sectors.

## RATIONALE

Herzberg's Two Factor Theory is the focal point of this research. The topic is of particular interest to the researcher because employees who are involved in banking industry are those who are commonly found to experience face-to-face interactions with customers. These employees play an important role in ensuring that service quality is delivered (Bettencourt & Brown, 2003).

## LITERATURE REVIEW

According to Herzberg (1959) the opposite of satisfaction has to be 'no satisfaction.' There are a total of top six factors that lead to dissatisfaction. These are 1) the company policy, 2) the supervision received by the employee from his/her boss, 3) the relationship established between the employee and the boss, 4) the working conditions involved, 5) the salaries of the employee, and 6) the relationship that the individual established with his./her colleagues.

On the other hand, the top six factors that lead to satisfaction include 1) the employee's achievement, 2) recognition, 3) the work itself, 4) the responsibility undertaken, 5) advancement and 6) growth. It has been suggested that in order for companies to be successful, especially when it comes to the performance produced by their workforce, there is a need for the management to consider the factors mentioned above. According to Goodwin & Gremler (1996) the banking industry is in need of employees that are both satisfied and motivated, for without them, customer satisfaction levels would also be affected. This idea is also supported by Adelman et al. (1994) who maintains that interpersonal relationships established between bank personnel and the customers are a big driving force behind ensuring that a customer is satisfied or dissatisfied.

According to Adams (1965) when it comes to research studies regarding reward allocation, there are three common allocation rules. These include 1) equity, 2) equality and 3) need (Deutsch, 1975). Chen (1995) also considers that seniority has to be a fourth allocation and this factor should serve as a principle of importance. Kanfer (1990) states that employees are constantly involved in a social exchange process wherein they contribute efforts in exchange for rewards. They also compare the effort or contribution that they put in towards accomplishing a certain task and acquiring rewards in exchange for the former.

According to Babakus et al. (2003) the perceptions that employees have with regards to their reward climate influences their attitudes towards their employees. In addition, the commitment of managers towards their organization is also shown by how the manager rewards his/her employees. Gouldner (1960) mentions the norm of reciprocity, which focuses on the ability of organization to accommodate the needs of their employees, and reward them for their efforts. In exchange for the rewards provided to them, employees should reciprocate by increasing their commitment towards their organization and their work, in addition to increasing their 'socio emotional bonds' with their company and their colleagues.

Siegrist (1996) has established a theoretical model dubbed the Effort-Reward Imbalance (ERI) Model places high importance towards the provision of rewards instead of controlling the work systems and its structures within an organization. The main concept of the model is that the amount of work that an employee puts towards work is a part of the 'socially organized exchange process' to which society feels obliged to repay. Such repayment comes in the form of 'occupational rewards.

Probst & Brubaker (2001) concluded that the difference between job satisfaction and dissatisfaction lies in the amount and the type of rewards provided or given to the employees and the amount and type of rewards that the employee expects he/she deserves. This idea is

supported by previous researchers Magione & Quinn (1975) who consider both job satisfaction and dissatisfaction to be the result of the perceptions of an employee with regards to personal expectations about what and how much they deserve for contributing towards the organization that they work for. According to a study conducted by Ahmad et al. (2010) employees are highly likely to feel 'rewarded' and 'motivated' when they know that they are able to get fair pay with regards to the amount of work that they do. In the study, the researchers stated that employees are particularly concerned about discrimination with regards to fair pay, and this may hamper their motivation levels to do their job well.

According to Nelson & Spitzer (2002) one of the best ways for managers to determine the top hygiene and motivating factors that boost work performance among employees, would be through a trial and error method. In other words, if a factor implemented does not work, then the manager can simply look for another method instead.

According to Shore & Shore (1995) employees who are able to experience and receive recognition for their work are also able to have a better perception of their work, their workplace and the people they work for. This idea is further reiterated by Buchanan (1974) who adds that the recognition of contributions towards the organization has a positive relationship towards increasing the commitment of the employee towards the organization and its objectives.

Skinner (1969) makes a point that offering rewards in exchange for hard work, especially in service industries such as banks and other establishments is very important when it comes to influencing the perceptions of employees.

According to Kessler & Purcell (1992) financial rewards provided to employees individually have a tendency to improve culture that focuses on boosting the quality of performance. On the other hand, according to Chiang & Birtch (2009) rewards that are non-financial in nature, such as the provision of an increase in holidays, and increases in family benefits, contribute towards the employee perceiving his/her workplace as a 'supporting and caring' organization. Johnson et al. (1986) contends that by providing employees with as much rewards as possible (in proportion to their work efforts), employees are able to function more efficiently. This idea is further supported by Eccles (1991) who stresses that when employees are able to see that their company really values and rewards certain service behaviors, then the employees would also want to embrace or welcome such values, and they would be able to exhibit desirable behaviors based on such perceptions and the promise of rewards. A study conducted by Hinkin & Schriesheim (2004) concluded that there exists a positive relationship between the rewards provided by the management of a company, and the job satisfaction felt by the workers, and the effectiveness of the work produced.

It has been suggested by Bartol & Srivastava (2002) that rewards are utilized by managers to show employees that their behaviors are being observed by the organization that they work for, and if favorable, such behaviors shall be valued. Eisenberger et al. (1998) stresses that the rewards provided to employees (with cause), allows companies to 'direct, sustain and motivate desirable 'values and behaviors.' Examples include: knowledge sharing, increase in employee creativity, increase in quality performance, and increases in customer satisfaction levels. Thus, according to Chiang & Birtch (2010) managers need to understand the kind of role that the provision of rewards to employees' service quality orientation, which in turn, is crucial towards fostering service excellence.

## METHODOLOGY

### Sample and Data Collection

The study was conducted with reference to the employees of public and private banks situated in the federal area of Islamabad and Rawalpindi, Pakistan. Presently, there are 39 banks operating in Pakistan, which includes 28 local and 11 multinational banks. Of these 39 banks, only one is public. Out of 14 private banks in Islamabad and Rawalpindi, three were chosen randomly. 200 questionnaires were distributed to the employees of the one public and two private banks; out of these, 120 correctly filled out questionnaires were received, providing an overall response rate of 60%.

**Table 1. Participants' Profile**

<i>Variables</i>	<i>Gender</i>		<i>f</i>	<i>%</i>
	<i>Male</i> ( <i>n= 84</i> )	<i>Female</i> ( <i>n=36</i> )		
	<i>N = 120</i>			
<i>Marital Status</i>				
Single	20	16	36	30.0
Married	64	20	84	70.0
<i>Education of Employees</i>				
Bachelor	16	12	28	23.3
Master	68	24	92	76.7
<i>Experience</i>				
1-3 years	13	08	21	17.5
4-6 years	20	18	38	31.7
7-10 years	30	04	34	28.3
More than 10 years	21	06	27	22.5
<i>Employee's Age</i>				
Between 20.0 to 25.0 years	08	04	12	10
Between 25.1 to 30.0 years	27	09	36	30
Between 30.1 to 35.0 years	20	19	39	32.5
Between 35.1 to 40.0 years	14	04	18	15
Between 40.1 to 50.0 years	11	0	11	9.2
Between 50.1 to 60.0 years	04	0	04	3.3

### Measurement

Data was collected through a questionnaire survey of employees at selected banks in Islamabad. The short form of the Minnesota Satisfaction Questionnaire (MSQ) authored by Weiss, Dawis, England & Lofquist (1967) was selected for the purpose of the present research and the same was also used in the previous research studies e.g. Herzberg (1959) & La Belle (2005). This selection of rewards factors makes the study more suited to the work settings of banking sector of Pakistan as shown in Table 2 below.

**Table 2. List of Intrinsic and Extrinsic Rewards Factors**

<i>Intrinsic Rewards Factors</i>	<i>Extrinsic Rewards Factors</i>
Ability Utilization (Intrinsic)	Co-workers (Extrinsic)
Moral Values (Intrinsic)	Recognition (Extrinsic)
Achievement (Intrinsic)	Advancement (Extrinsic)
Creativity (Intrinsic)	Supervision—Human Relations (Extrinsic)
Activity (Intrinsic)	Supervision—Technical (Extrinsic)
Independence (Intrinsic)	Company Policies (Extrinsic)
Responsibility (Intrinsic)	Compensation (Extrinsic)
Security (Intrinsic)	Working Conditions (Extrinsic)
Authority (Intrinsic)	
Social Service (Intrinsic)	
Social Status (Intrinsic)	
Variety (Intrinsic)	

### **Reliability and Validity**

Cronbach's alpha for the instrument is acceptable (Peters Jackofsky & Salter, 1981), therefore, there was no need to ascertain its reliability and validity indices because these have been established previously.

### **ANALYSIS AND RESULTS**

Software that has been used for data analysis is SPSS v. 16.0. Both descriptive and inferential statistics were used to analyze the data. Details are summarized in Table 3.

For banking employees' intrinsic rewards, the following were rated as satisfactory. This shows respondents agree that intrinsic rewards increases job satisfaction and job performance of employees which satisfies Objective 1.

Social Service (X=5.20, sd=0.60); Security (X=5.15, sd=0.57); Ability Utilization (X=5.05, sd=0.74); and Authority (X=5.05, sd=0.67). Moreover, the following intrinsic rewards were rated as neutral: Achievement (X=3.28, sd=0.83); Moral Values (X=3.10, sd=1.10); Independence (X=3.35, sd=0.98); Activity (X=2.81, sd=1.21); Social Status (X=2.60, sd=0.80); and Variety (X=2.55, sd=0.81). Finally, the following were rated as dissatisfactory: Responsibility (X=2.32, sd=0.96); and Creativity (X=2.14, sd=0.83).



**Table 3. Measures, Descriptive Statistics, Rating Scales, and Items Examples: Intrinsic and Extrinsic Rewards**

<i>Measures</i>	<i>Mean</i>	<i>SD</i>	<i>Rating scale‡; Items example of Short form of MSQ and Corresponding Categories</i>
<i>Intrinsic Rewards</i>			
Ability Utilization (Intrinsic)	5.05	0.74	The chance to do something that makes use of my abilities
Moral Values (Intrinsic)	3.10	1.10	Being able to do things that don't go against my conscience
Achievement (Intrinsic)	3.28	0.83	The feeling of accomplishment I get from the job
Creativity (Intrinsic)	2.14	0.83	The chance to try my own methods of doing the job
Activity (Intrinsic)	2.81	1.21	Being able to keep busy all the time
Independence (Intrinsic)	3.35	0.98	The freedom to use my own judgment
Responsibility (Intrinsic)	2.32	0.96	The chance to work alone on the job
Security (Intrinsic)	5.15	0.57	The way my job provides for steady employment
Authority (Intrinsic)	5.05	0.67	The chance to tell people what to do
Social Service (Intrinsic)	5.20	0.60	The chance to do things for other people
Social Status (Intrinsic)	2.60	0.80	The chance to be "somebody" in the community
Variety (Intrinsic)	2.55	0.81	The chance to do different things from time to time
<i>Extrinsic Rewards</i>			
Co-workers (Extrinsic)	3.25	0.77	The way my coworkers get along with each other
Recognition (Extrinsic)	4.05	0.67	The praise I get for doing a good job
Advancement (Extrinsic)	2.20	0.95	The chances for advancement on this job
Supervision—Human Relations (Extrinsic)	3.40	0.97	The way my boss handles his/her workers
Supervision--Technical (Extrinsic)	2.80	0.68	The competence of my supervisor in making decisions
Company Policies (Extrinsic)	4.69	0.74	The way company policies are put into practice
Compensation (Extrinsic)	2.80	0.88	My pay and the amount of work I do
Working Conditions (Extrinsic)	2.50	0.93	The working conditions

‡ 5 = Very Satisfied, 4 = Satisfied, 3 = Neutral, 2 = Dissatisfied, 1 = Very Dissatisfied.

The following extrinsic rewards were assessed as satisfactory that shows respondents agree that extrinsic rewards increases job satisfaction and job performance of employees which satisfies Objective 2.

Recognition ( $X=4.05$ ,  $sd=0.67$ ); and Company Policies ( $X=4.69$ ,  $sd=0.74$ ). Moreover, these extrinsic rewards were evaluated as neutral: Supervision-Human Relations ( $X=3.40$ ,  $sd=0.97$ ); Co-workers ( $X=3.25$ ,  $sd=0.77$ ); Supervision--Technical ( $X=2.80$ ,  $sd=0.68$ ); Compensation ( $X=2.80$ ,  $sd=0.88$ ); and Working Conditions ( $X=2.50$ ,  $sd=0.93$ ). One factor has been rated as dissatisfactory: Advancement ( $X=2.20$ ,  $sd=0.95$ ).

**Table 4. Descriptive Statistics: Overall Mean for Intrinsic and Extrinsic Rewards**

	<i>Intrinsic Rewards</i>	<i>Extrinsic Rewards</i>
<i>Mean (Actual)</i>	4.21	4.29
<i>Mean (Approx)</i>	4.0	4.0
<i>Std.Deviation</i>	0.34	0.38
<i>N</i>	120	120

Satisfaction over intrinsic rewards was rated as satisfactory by banking employees. Moreover, extrinsic rewards were also assessed as satisfactory, based on their averages.

**Table 5. Overall Descriptive Statistics: Overall Satisfaction and Performance**

	<i>Overall Satisfaction</i>	<i>Performance of employees</i>
<i>Mean (Actual)</i>	5.2217	5.2913
<i>Mean (Approx)</i>	5.0	5.0
<i>Std.Deviation</i>	0.63	0.69
<i>N</i>	120	120

Overall satisfaction of banking employees was assessed as satisfactory ( $X=5.0$ ,  $sd=.63$ ), while their self-rated performance was likewise rated as satisfactory ( $X=5.0$ ,  $sd=.68$ ). This shows respondents agree that intrinsic and extrinsic rewards increase overall job satisfaction and performance of employees.

The following intrinsic rewards were found significantly and positively correlated with self-reported performance for the year: Security ( $r=.804$ ,  $p=.000$ ); Ability Utilization ( $r=.670$ ,  $p=.000$ ); Social Service ( $r=.566$ ,  $p=.000$ ); Variety ( $r=.440$ ,  $p=.000$ ); Moral Values ( $r=.311$ ,  $p=.001$ ); Activity ( $r=.293$ ,  $p=.001$ ); and Authority ( $r=.188$ ,  $p=.030$ )

On the other hand, the following extrinsic rewards were found to be significantly and positively correlated with performance: Recognition ( $r=.643$ ,  $p=.000$ ); Supervision-Human Relations ( $r=.487$ ,  $p=.000$ ); Advancement ( $r=.334$ ,  $p=.000$ ); and Co-workers ( $r=.289$ ,  $p=.001$ ). This satisfies our objective 3.



**Table 6. Pearson's Correlation Coefficient for Intrinsic and Extrinsic Rewards and Performance**

<i>Rewards</i>	<i>Performance</i>	<i>p</i>
Ability Utilization (Intrinsic)	.670**	.000
Moral Values (Intrinsic)	.311**	.001
Achievement (Intrinsic)	-.178	.052
Creativity (Intrinsic)	-.035	.700
Activity (Intrinsic)	.293**	.001
Independence (Intrinsic)	-.242**	.008
Responsibility (Intrinsic)	-.247**	.006
Security (Intrinsic)	.804**	.000
Authority (Intrinsic)	.188*	.030
Social Service (Intrinsic)	.566**	.000
Social Status (Intrinsic)	-.037	.689
Variety (Intrinsic)	.440**	.000
Co-workers (Extrinsic)	.289**	.001
Recognition (Extrinsic)	.643**	.000
Advancement (Extrinsic)	.334**	.000
Supervision—Human Relations (Extrinsic)	.487**	.000
Supervision—Technical (Extrinsic)	-.022	.814
Company Policies (Extrinsic)	.120	.193
Compensation (Extrinsic)	-.186*	.042
Working Conditions (Extrinsic)	.080	.385

\* =  $p < 0.050$ ; \*\* =  $p < 0.01$ 

## DISCUSSION AND IMPLICATIONS

The study outcomes suggest that top management of banking sector of Pakistan need to be properly promote employee performance by the use of rewards. Specifically, hygiene factors such as the level of supervision and the current work environment need to be acceptable to the employees, or otherwise changed so that they become more acceptable. If a manager were to praise his employees' performance on a regular basis while neglecting the working conditions, his praise would be seen as mere lip service and he would be seen to be insincere. The study contributes to the body of literature by applying a customized set of rewards factors in an understudied but important sector (i.e. the banking sector).

## CONCLUSION

Both intrinsic and extrinsic rewards are equally important in ensuring that employees do their best. At the same time, this study bears certain limitations, which should be kept in mind

while using the findings. Firstly, it has been conducted in a developing country in Asia, and thus entails a specific cultural and socio-economic environment that may limit the potential level of generalization. Future studies in other countries, specifically those in Asia, may replicate the study with particular adjustments to match the specific work setting. Secondly, the data was collected only from employees in the banking industry. Future studies may focus on the influence of rewards on employee performance in other sectors and other contexts (i.e. countries). The influence of demographic traits on performance may also be assessed.

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