



Impact of intrinsic and extrinsic rewards on employee performance and determining role of HR practices. A case study of Jordan

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Abstract

The aim of the paper was to investigate impact of intrinsic and extrinsic rewards on employee's performance and determining the mediating effect of HR Practices. The survey was conducted from employees of private organizations in Jordan and 322 responses out of 400 were received from participants. Meanwhile, confirmatory factor analysis (CFA) and PLS-SEM was applied through SmartPLS statistical package. The instrument being used in the survey was tested through Cronbach's alpha, composite reliability, AVE and HTMT ratio; the instrument complies with all of the preliminary requirements of being reliability, valid and is conceptually accurate. Meanwhile, the empirical findings of paper reveal that intrinsic rewards have a positive and statistically significant impact on the employee's performance but extrinsic have been found to have a positive but not significant impact on the employee's performance. Meanwhile, the intrinsic rewards and extrinsic rewards also have a direct and significant impact on the HR practices. On the other hand, indirect effect of HR practices on the effect of intrinsic and extrinsic rewards is also positive and significant. Furthermore, paper also provides recommendations for the organizations in Jordan.

Keywords: HR, Employees, Performance, Jordan

Introduction

In a highly competitive atmosphere firms have been striving to achieve competitive edge through improving products, operational activities and management system in business (Nisar et al., 2014). The ultimate goal of the firm is to achieve pre-planned and scheduled goals and to achieve this employee need to be motivated intrinsically and extrinsically (Kapelner and Chandler, 2010). Similarly, Khan et al., (2014) have stated that rewarding employees and reward system has been one of successful strategies of many organizations to make employees more satisfied, enhance their performance. The satisfaction of employees depends on their thinking, perception and feelings towards job because in a highly work load situation that often arise in every organization requires extra efforts of the employees satisfactorily. This requires an effective and efficient contribution of employees to perform and play a vital role in growth and development of organization (Khan, Yusoff, and Khan, 2014). Therefore, to maintain a healthy and workable environment in high workload situation is critical and this could be achieved through an effective rewarding system within the organization. Hence, this could boost up performance of employees and they could directly contribute growth of organization.

There are two important components of the employee's performance; one that employees have to be satisfied and second that employees should have positive attitude towards job. The satisfaction and positive job attitude have been associated with the enhanced performance of the employees. However, employee's satisfaction and positive attitude is also linked back with the intrinsic and extrinsic rewards that makes employees to work out of the way (Ajmal et al., 2015). Irrespective of stress in workload situations, they perform exceptionally with hope of reward. However, as per the Qureshi et al (2013) the satisfaction of employees also depends on the practices of human resources management (HR) based on the fact that they prefer to have a fair rewarding system, judges, investigation, neutral performance appraisal and that they should be rewards accordingly. Based on this concept the purpose of following study emerges that if the performance of the employees is enhanced by intrinsic and extrinsic rewards then does HR practices play a role to affect how intrinsic and extrinsic rewards affect employee's performance. The findings of this paper could help to develop strategies to align reward system with the HR practices as to enhance performance of employees.

Literature Review

A reward is described a benefit received by an individual for performing a specific task or job that enhanced performance and productivity of employee and organization. It is said a reward system in which employees are given benefits based on the job performed and this reward system can be divided into the two categories; intrinsic rewards and extrinsic rewards (Legault, 2016). Meanwhile, the extrinsic rewards refer to the monetary benefits in form of remuneration, commission, improved working environment through separate cabin, opportunities to improve career and also additional benefits and perks for the employees. These are extrinsic rewards that through which employees' motivation could be increased towards work (Gerhart and Fang, 2015). Similarly, previous studies have also revealed a that a poor remuneration is associated with the earnings of organization and difference between low income employees and high-income employees makes employees less courageous, less committed and also less productive (Ajmal et al., 2015). Therefore, an effective rewarding system in form of extrinsic rewards could enhance performance of the employees to increased commitment.

In addition to, another way to enhance the performance of employees is intrinsic rewards in which employees are given benefits other than monetary rewards. These include appreciation from management, giving an important task, autonomy, promotions, family benefits and also opportunities to increase holidays (Legault, 2016). This allows employees to perform innovatively given that employees are motivated and perceive they are important part of organization and have certain special responsibility towards organization. However, it has also been critically examined by Yoon, Sung and Choi (2015) that reward system does not equally works for all employees where certain employees prefer to have extrinsic rewards most often employees from lower level management and certain employees prefer to have intrinsic rewards most often employees from higher level management. Therefore, distinguishing between those employees is also critical to enhance performance employees rather than demotivating them. Similarly, Ajmal et al (2015) have argued that executives of the organization may not be motivated through extrinsic rewards mean from monetary benefits but they are more likely to prefer intrinsic rewards. It is responsibility of the HR to distinguish between the employees those prefer to have extrinsic rewards and intrinsic rewards and reward them accordingly.

The performance management is used a tool by management to improve performance of employees and it has also been revealed by Guest (2017) that productivity of employee is associated with the level of job satisfaction. Employees need to have a better and attractive remuneration packages for high performing employees which could increase employee's satisfaction and commitment towards organization. Similarly, Olsen, Bjaalid and Mikkelsen (2017) found that lower level of job satisfaction is associated with poor performance and as per the theory proposed by the Adams (1963) employees need to be treated equally because they want to be treated equally and fairly. This also reveals that in this way employers can compare the rewards among the employees and avoid inequality but treat everyone equally and reward them as per their role and contribution to specific job or task. Therefore, in absence of proper reward distribution system, the inequality is inevitable and this could also affect the performance of the employees.

Furthermore, the role of HR is critical to maintain equality of rewards distribution and this solely depends on the practices of the HR to distribute rewards among employees. It is because the organization need to focus employees individually as per their status and demographics to motivate them towards job and increase their

level of satisfaction (Bisharat et al., 2017). As intrinsic rewards may not motivate certain employees such lower level management employees and extrinsic rewards also may not motivate certain employees such as higher-level management employees. Therefore, it is determined that irrespective of provision of rewards, employees may not be motivated, satisfied and improve performance due to inequality within employees and inappropriate reward system (Farooq and Hameed, 2016). Therefore, HR policies could play an important role to effectively distribute rewards and enhance performance employees. Meanwhile, literature review following hypothesis have been constructed

H10: Impact of intrinsic rewards on employee performance is not significant.

H11: Impact of intrinsic rewards on employee performance is significant.

H20: Impact of extrinsic rewards on employee performance is not significant.

H21: Impact of intrinsic rewards on employee performance is significant.

H30: HR practices does not significantly mediate impact of intrinsic and extrinsic rewards on employee performance.

H31: HR practices significantly mediates impact of intrinsic and extrinsic rewards on employee performance.

Methodology

The purpose of the study was to investigate impact of intrinsic and extrinsic rewards on employee performance while determining role of HR practices, for this purpose survey was required to be conducted from employees in Jordan. Therefore, a questionnaire was developed and was sent to 400 employees based on non-probability judgmental sampling technique which allowed researcher to easily recruit the participants those were available on social media platforms and proximity of participants near to researcher. However, researcher received total 422 responses and these responses were used to conduct empirical investigation. Furthermore, for empirical analysis SmartPLS was employed and partial least square (PLS) structural equation model (SEM) technique was used which probably addresses the issues multicollinearity within the data. It is because the issue of multicollinearity is prevalent in survey data and multiple regression and use of SPSS could not have provided appropriate robust results (Kock, 2015). Hence, SmartPLS and PLS-SEM was only applicable option to conduct empirical analysis.

Furthermore, first and foremost prerequisite of the survey data analysis is to assess and evaluate, reliability, validity, correctness of instrument measurement to comply with the scholarly practices. Therefore, to assess the reliability of the instrument the Cronbach's alpha along with the composite reliability was used and to assess the validity of instrument average variance extracted (AVE) was used to see if instrument is valid to be used for survey analysis. In addition to, discriminant validity was another important step to evaluate and assess the conceptual correctness of measurement and this was assessed through Heterotrait-Monotrait ratio (HTMT) ratio. On the other hand, the decision to include and exclude a factor was based on the value of factor loading where threshold 0.85 was used (Tho, 2015). If the value of factor loading was less than 0.85 then factor was excluded from the study due to low variance estimation power.

Results

Reliability and Validity

In empirical analysis, reliability and validity of the instrument is first step and most important step to carried out. The reliability has been defined as internal consistency of instrument which means it assess whether instrument produces consistent results or not. It is because, in social sciences studies, it is claimed that there should be internal consistency in the responses if an instrument is used multiple times. Therefore, if an instrument cannot produce consistent responses then it is not reliable to be used for survey and results cannot be generated on unreliable data (Navarro, Llinares and Garzon, 2016). Meanwhile, table 1 presents the Cronbach's alpha and composite reliability and value of each of construct is greater than 0.7 which is considered a benchmark for assuming reliability of the instrument as suggested by Ahmed and Daud (2016). Therefore, it

is determined that instrument produces consistent responses hence it is reliable and data also reliable to be used.

Table 1 Reliability and Validity

	Factor Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
		0.939	0.956	0.845
EP1	0.904			
EP2	0.916			
EP3	0.912			
EP4	0.944			
		0.896	0.935	0.828
ER1	0.889			
ER2	0.935			
ER3	0.904			
		0.921	0.944	0.808
HR1	0.882			
HR2	0.917			
HR3	0.888			
HR4	0.909			
		0.875	0.909	0.667
IR1	0.764			
IR2	0.849			
IR3	0.821			
IR4	0.822			
IR5	0.824			

Furthermore, validity of the instrument is tested through average variance extracted (AVE) and the value of AVE for all construct is greater than 0.5 and this suggests that instrument is valid and perform function perfectly for which it was designed to perform (Gunawan and Huarng, 2015). Meanwhile, it also shows that there is convergent validity which means each of the construct that should be related is actually related or can be said that each of factor in construct measures same concept. Therefore, instrument is said to be valid and data collected through this instrument is also valid.

Discriminant Validity

The discriminant validity by definition is assessment of correctness of concept measurement by the instruments. A survey questionnaire consists of multiple types of variables and each of the variable represents different concept and to measure each of the concept the instrument has specific factors that measures that concept. Therefore, discriminant validity assesses that constructs that should not measure same concept are actually measuring different concept. Meanwhile, the HTMT ratio less than 0.85 that suggests that there is discriminant validity which means each of the construct in instrument measures a mutually exclusive concept

(Henseler, Ringle and Sarstedt, 2015). Hence, it implies that there is no conceptual measurement issue with the instrument and it is conceptually correct and measures different concept.

Table 2 HTMT Ratio

HTMT	Employee Performance	Extrinsic Rewards	HR Practices
Employee Performance			
Extrinsic Rewards	0.521		
HR Practices	0.760	0.599	
Intrinsic Rewards	0.701	0.518	0.721

Path Coefficients

In empirical papers, model has imperative role which reveals extent to which model explains the variability of the observed variable. The coefficient of determination or also known as R-Square that is used to interpret how variability of the regressand is estimated or explained by predictors of the study (Nakagawa, Johnson and Schielzeth, 2017). Table 3 presents estimation power of model. In following, paper there were two indicators; intrinsic rewards and extrinsic rewards and dependent variable is employee's performance. Therefore, referring to first model in which employee's performance is dependent variable, it has R-square 0.563 that indicates that 56.3% variance of the employee performance can be explained by intrinsic rewards and extrinsic rewards. Meanwhile, remaining variability is residual that could not be explained by the existing variables but could be explained by other variables that are not included in the model.

Table 3 Coefficient of Determination

	R Square	R Square Adjusted
Employee Performance	0.563	0.559
HR Practices	0.499	0.496

Furthermore, in second model the mediating effect was checked that how HR practices affects the impact of intrinsic rewards and extrinsic rewards on the employee performance. The R-square of the second model is 0.499 which means 49.9% variance of the HR practices can be explained by intrinsic rewards and extrinsic rewards. Meanwhile, remaining variance is residual of the model that is explainable by other variables. Furthermore, Table 4 presents the path coefficients and it shows that if extrinsic rewards change by one unit than employee's performance would improve by 0.091 [$p=0.093$]; this suggests that there is positive but statistically insignificant impact of extrinsic rewards since p-value is greater than alpha 0.5. Therefore, it is determined that extrinsic rewards may not influence performance of the employees in Jordan.

Table 4 Path Coefficients

	Original Sample	T Statistics	P Values
Extrinsic Rewards -> Employee Performance	0.091	1.681	0.093
Extrinsic Rewards -> HR Practices	0.310	5.759	0.000
HR Practices -> Employee Performance	0.469	6.557	0.000
Intrinsic Rewards -> Employee Performance	0.292	4.676	0.000
Intrinsic Rewards -> HR Practices	0.508	11.444	0.000

In addition to, if intrinsic rewards increase by one unit then employee’s performance would improved by 0.292 [p=0.000]; this suggests that there is positive and significant impact of intrinsic rewards on the employee’s performance. Therefore, performance of the employees could be enhanced if they are given intrinsic rewards because it may increase their job satisfaction and job motivation to perform better and out of the way to achieve organizational objective. Meanwhile, it is also found that if intrinsic and extrinsic rewards also have a positive influence over the employee’s performance since p-value is less than chosen level of alpha 0.05.

Mediation Effect

Table 5 presents the mediation effect of HR practices; it is found that if HR practices improves by one unit than impact of extrinsic and intrinsic rewards on employee’s performance would improve by 0.145 [p=0.000] and 0.238 [0.000] respectively. Therefore, it is determined that HR Practices positively and significantly mediates the impact of intrinsic rewards and extrinsic rewards. Hence, if the practices of HR improve then influence of both reward categories may be positive but if there are no effective practices of the organizations with respect to distribution of rewards then employee’s performance is expected decline. This also reveals that irrespective of reward for the employees, the practices of HR have to be effective to distribute appropriate rewards to employees. Since, certain employees are not motivated by intrinsic rewards and certain are not motivated by extrinsic rewards, hence each of employee should receive the reward which he expects to receive.

Table 5 Indirect Effect

	Original Sample	T Statistics	P Values
Extrinsic Rewards -> HR Practices -> Employee Performance	0.145	4.636	0.000
Intrinsic Rewards -> HR Practices -> Employee Performance	0.238	5.751	0.000

Conclusion and Recommendations

The aim of the paper was to investigate impact of intrinsic and extrinsic rewards on employee’s performance and determining the mediating effect of HR Practices. The survey was conducted from employees of private organizations in Jordan and 322 responses out of 400 were received from participants. Meanwhile, confirmatory factor analysis (CFA) and PLS-SEM was applied through SmartPLS statistical package. The instrument being used in the survey was tested through Cronbach’s alpha, composite reliability, AVE and HTMT ratio; the instrument complies with all of the preliminary requirements of being reliability, valid and is conceptually accurate. Meanwhile, the empirical findings of paper reveal that intrinsic rewards have a positive and statistically significant impact on the employee’s performance but extrinsic have been found to have a

positive but not significant impact on the employee's performance. Meanwhile, the intrinsic rewards and extrinsic rewards also have a direct and significant impact on the HR practices. On the other hand, indirect effect of HR practices on the effect of intrinsic and extrinsic rewards is also positive and significant. Therefore, it is determined that extrinsic rewards in Jordan does not influence performance of employees but intrinsic rewards are more preferred form of rewards as per Jordanian culture. Similarly, it is also found that influence of HR practices is positive and significant which means the rewards should be distributed as per the demands and interest of employees because few of employees may not be motivated by intrinsic rewards and some also may not be motivated by extrinsic rewards. Therefore, it is recommended that organizations should employ an appropriate rewards system through which rewards must be distributed as per the interest of employees. For this purpose, status of employee and demographics should be analyzed to identify employees those have interest in intrinsic rewards and extrinsic rewards.

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