

The Application and the Effect of Extrinsic and Intrinsic Rewarding Models on Employee Output of Commercial Banks in Puntland

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Abstract

The purpose of this study is to examine the application and the effect of extrinsic and intrinsic rewards on employee performance in commercial banks in Puntland. Amal Bank which is among the oldest in the state has been considered as the case for this study. The study adopted a regression research design to establish the effect of the variables in question. Both simple and purposive sampling techniques have been employed to have 28 participants from Amal Bank respond to the study tool which was semi-structured questionnaire. Data was analyzed using descriptive statistics and regression analysis to derive the conclusions of this study. Majority of the respondents have attained Bachelor's and Master's educational levels and have worked in the banking sector for more than 4 years. Of the two variables, extrinsic reward is the most significant predictor to performance of commercial banks explaining up to 48.7% change in the performance of employees while intrinsic rewards accounted for a change of up to 31.1%. The combination of the two in the rewarding of employees presented a value of 2.67. Based on the study findings, it is recommended that proper training, known rewarding strategies, and promotions be given to employees, irrespective of their gender and other social characteristics. The management should also create a culture of visibly recognizing high performing employees to encourage them and increase their morale as this will eventually motivate others to perform better. Furthermore, while employees may vary physically and mentally, the management should align their tasks with their edge of abilities, and respond to their needs individually.

Keywords: Extrinsic reward • Intrinsic reward • Employee performance • Commercial banks • Somalia

Introduction

Rewards are the most important techniques to keep employees motivated in accomplishing their tasks. Organizations utilize reward as one of the methods for attracting and retaining qualified employees, as well as assisting them in improving their performance. Reward systems are highly important for a business, and their objective is to give a systematic manner to provide beneficial outcomes such as improving employee performance [1].

According to Kolluru M [2] there are two types of rewards; extrinsic and intrinsic. Extrinsic reward (also known as financial, tangible, or monetary reward) is primarily monetary in nature. It is called "extrinsic" because it is external to the job itself and controlled by others in terms of magnitude and grant ability. Salary, fringe benefits, work stability, promotion, social atmosphere, competitive wages, pay hikes, merit bonuses, compensatory time off, and so on are all part of it. Intrinsic reward (also known as non-financial reward) is a psychological benefit that employees receive for doing meaningful job and doing it well. One of the keys to motivating staff to perform as expected is the reward. The reward might be in the form of financial, recognition and praise, or a mix of the two [3].

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Over the years, it has been discovered that good pay is one of the strategies that firms may implement to improve employee performance and hence raise productivity. Employees demand monetary and non-monetary compensation for their services and efforts. They become disgruntled and underperform when there is a lack of appropriate compensation, training and development opportunities, and recognition [4].

In developing countries, employee reward is one of highly demanded factors in commercial banking that is thought for influencing organization's performance given the socio-economic circumstances prevailing. In Somalia, various reward packages are used by commercial banks and these involve monetary (extrinsic) and non-monetary (intrinsic) rewards. For example, in the context of monetary reward salary increase sought to be highly essential for employees' satisfaction [5].

Hence, this study seeks to examine two main objectives

1. To examine the effect of extrinsic rewards on employee performance in Commercial Banks in Puntland.
2. To examine the effect of intrinsic rewards on employee performance in Commercial Banks in Puntland.

Materials and Methods

This study employed a regression research design. The choice of the regression design in this study was informed by the fact that, the general objective of the study was to examine the effect of extrinsic and intrinsic rewards on employee performance of commercial banks in Puntland.

The sample size of this study was made up of 28 respondents selected from a population of 30 calculated by using the Sloven's formula. Both random and purposive sampling techniques have been used to select the sample size. The data collected for this research is gathered through a questionnaire, where the respondents replied to close ended questions.

The data collected is then altered in the analysis as useful information about the various extrinsic rewards and intrinsic rewards to a five-point Likert scale rating 1 to 5 (strongly disagree, disagree, neutral, agree, strongly agree). Data was then coded, entered into and analyzed using the Statistical Package for Social Sciences (SPSS).

Results and Discussion

Table 1 above shows that the majority of the respondents (64.3%) were male which corresponds to the fact that the labor market of Somalia across all the sectors is a male dominated one. The demographics also show that more than 90% of the employees have attained either bachelors or masters' academic levels. This explains that the banking sector has attracted qualified staff which can be trained to work in the dynamics of this sector. More to that, most of the respondents aged between 18-30 years and have been working in commercial banks for a period between 0 to 3 years (Table 1).

Table 2 above discusses the extent to which performance of the staff is influenced by extrinsic rewards. A high percentage of the respondents (46.4%) argued that financial pay is what motivates the performance of the employees. This is in agreement with the findings of Edirisooriya WA [6] who explained that a positive adjustment in compensation from the employer, such as a wage increase or an increase in the size of the employee's present salary, would inspire them to improve their performance.

Bonus and incentives plan are also found to be other elements influencing employee performance. 42.9% and 21.4% of the study participants have agreed and strongly agreed to this, respectively. This is in line with the findings of Hameed Z, et al. [7] who stated that both bonuses and incentives are intended to stimulate employees as they are used as immediate monetary motivators.

The study also found out that the provision of low-cost loans to the employees of commercial banks is another strategy to impact on the job

commitment of the staff. On the other hand, majority of the participants agreed that salary increments for the top performing staff is a workable strategy to motivate others. This implies that the failure of a company or an institution to reward the high performing staff will demoralize the rest, and hence a low employee performance which will subsequently leave immeasurable effects on the overall business performance (Table 2).

Table 3 above evaluates the effect of non-monetary rewards on the employee performance of commercial banks in Puntland. Over 50% of the respondents agreed that employees take intrinsic rewards as part of their feelings of value and appreciation. This corresponds to the findings of Irshad A [8] who observed that non-financial rewards arouse the inner feelings of satisfaction, which gives the employee a sense of belonging that drives superior performance.

On the same note, Ryan S [9] reported that recognition has proved to be more effective in motivating certain classes of employees to better performance. To him, it leads to job satisfaction, which all is a necessary condition for commitment and consequently better performance in the organization.

The study also found out that employees enjoy their work and perform better when the job offers opportunities for growth, development, and adequate training which can help them in their future career. This confirms the findings of Alshery WBR, et al. [10] who reported that giving employees an important task, autonomy, promotions, and opportunities for growth will allow them to perform innovatively, feel motivated, and will have a certain special responsibility towards the organization (Table 3) [11].

Regression analysis

Linear regression analysis was also carried out to establish which among the rewards (extrinsic or intrinsic) contributed most to employee performance of commercial banks in Puntland (Table 4).

Predictors: (Constant), intrinsic, extrinsic (Table 5).

Table 1. Demographic characteristics of the respondents (n=28).

Variable	Values	Frequency	Percentage %
Gender of respondents	Male	18	64.3
	Female	10	35.7
Age of respondents	18 - 30	22	78.6
	31 – 45	5	17.9
	46 and above	1	3.6
Highest academic qualification	Diploma	1	3.6
	Bachelors	21	75
	Masters	6	21.4
Working years in the banking sector	0 – 3 years	21	75
	4 – 6 years	5	17.9
	7 – 9 years	1	3.6
	10 and above	1	3.6

Table 2. Evaluation of the effect of extrinsic rewards on employee performance.

No.	Statement	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		n	%	n	%	n	%	n	%	n	%
1	Employees commit more effort to work so as to get additional pay for their performance	2	7.1	3	10.7	7	25	13	46.4	3	10.7
2	The bonus and incentives plan of the bank encourages employees to perform better	3	10.7	3	10.7	4	14.3	12	42.9	6	21.4
3	The bank has a clear and a fair promotion procedure which vastly contributes to employee performance	3	10.7	3	10.7	5	17.9	10	35.7	10	35.7
4	Salary increment made for high performers motivate others to perform better	2	7.1	—	—	2	7.1	12	42.9	12	42.9
5	The provision of other incentives like low credit rates for bank employees have greatly impacted on the commitment for the job.	2	7.1	3	10.7	7	25	10	35.7	10	35.7

Table 3. Evaluation of the effect of intrinsic rewards on employee performance.

No	Statement	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		n	%	n	%	n	%	n	%	n	%
1	Employees take recognition as part of their feelings of value and appreciation	2	7.1	4	14.3	6	21.4	8	28.6	8	28.6
2	Recognition of employees after finishing a task successfully contributes to employee productivity and job satisfaction	–	–	5	17.9	6	21.4	8	28.6	9	32.1
3	Employees enjoy their work better when it provides an opportunity for growth and development	1	3.6	2	7.1	4	14.3	7	25	14	50
4	The company provides adequate training to develop employees in their future career which make them commit more effort	–	–	3	10.7	5	17.9	10	35.7	10	35.7

Table 4. Model summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.729 ^a	.532	.496	3.02728	.532	14.780	2	26	.000

Table 5. Coefficients.

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	2.670	2.960			.902	.375
Extrinsic	.521	.190	.487		2.736	.032
Intrinsic	.322	.184	.311		1.747	.011

Dependent Variable: Employee Performance

Model; Performance= 2.670+0.311* extrinsic + 0.487*intrinsic

When extrinsic and intrinsic rewards of the respondents are equal to zero, the average employee performance would be 2.670. A one unit increase in extrinsic reward would lead to an increase in the employee performance of commercial banks in Puntland 0.521. On the other hand, a one unit increase in intrinsic rewards would lead to an increase in the employee performance of commercial banks in Puntland by 0.322. Hence, the most significant factor that influences employee performance is extrinsic reward followed by intrinsic rewards. Both variables were also found to be statistically significant as any change in the values will lead to changes in the dependent variable.

Conclusion

Based on the findings of the study, this research makes the following recommendations

- Since the majority of employees are motivated by rewards to perform better, commercial banks in Puntland should review their reward packages and include both extrinsic and intrinsic reward types. The banks also need to clearly communicate to its employees what they will get for their best performance.
- While employees vary from one another individually in terms of background, physical and mental, the management of the commercial banks should align their tasks with their edge of abilities, and respond to their needs individually.
- Commercial banks should also work on developing a culture that not only pays employees for their work, but also improves their career by providing adequate training programs and staff development opportunities irrespective of their gender and other social characteristics.
- The banks should also improve the existing poor recognition system in the sector. The results show that employees want recognition and appreciation as much as they want monetary rewards. Therefore, commercial banks should create a culture of visibly recognizing high

performing employees to encourage them and increase their morale as well as to motivate others to perform better.

- Employees should also at first hand question their contracts as far as remuneration and rewards are concerned.

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Conflict of Interest

None.

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