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Impact of Rewards on Employee Performance: A Study on Private Banking Sector in Bangladesh

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Abstract:

Reward management is a function of human resource management which is considered as a strategic asset for any organization. Therefore, this study is aimed to illustrate to what extent do rewards has an impact on employee performance in private banking sector in Bangladesh. More specifically this study has investigated the relationship between extrinsic reward, intrinsic rewards and employee performance level in private banking sector in Bangladesh. A total of 61 employees from 17 private banks were selected as sample to collect data through structured questionnaire including 11 questions. Descriptive statistic was used to provide a narrative view of the study while multiple regression analysis was undertaken as a statistical tool to do hypothesis testing. The result indicates that there is a strong positive relationship between intrinsic rewards and employee performance meaning that employees are highly interested to learn through training, solve complex challenging task, recognize by organization, receive feedback from managers and achieve organizational goal. The research result can be used as a guideline for other private banks in Bangladesh to have a better understanding of significance of reward system on employee performance that will help to develop a strategic reward system for sustainable competitive advantage

Keywords: Reward, Extrinsic rewards, intrinsic rewards, Employee performance, Private banking sector

1. Introduction

The significant contribution of banking industry cannot be ignored in the developing countries especially like Bangladesh. According to the Bangladesh Bank statistics (2019), the total number of banks that are operating in Bangladesh at recent time is fifty-seven where six are state-owned commercial banks, two are specialized one, forty are private commercial banks and nine are foreign commercial banks. Because of focusing and meeting customer requirement in a very innovative way, private commercial banks are getting more acceptances to customers compared to state-owned banks. So, today's competitive and dynamic business environment in private banking industry demands compatible and motivated workforce who can deliver their best performance even in difficult time. The dominance of this industry depends on having 360-degree efforts to economize on every part including restructuring operation for using modern technology, exploring new markets for existing products, finding out ways to use human resources effectively. So, it is the responsibility of this industry to find out what motivates employees so that they can provide their best to organization (Ranjan & Mishra 2017).

In banking sector, lots of factors can affect employee performance level including training and development opportunity, workplace condition, job security, reward giving by manager and many more (Akter et al.2012). Among these factors, providing rewards to employees is the topmost significant tool to encourage and motivate them to put their maximum efforts. Therefore, an important function of human resource management is reward management through which competent employees can be attracted and retained for facilitating them to have an improved performance level through motivation (Barons, 1983).

Setting an equitable reward system in organization is mandatory to give employees a sense of mutual gains, in other words developing win-win relationship both for organization and employees. This system demands alignment of needs and goals between organization and employees (Akter et al. 2012). Some literatures show the consequences of employee's performance level when there is an absence of effective reward system. According to Eisenberger (2011) and Heng (2012), failure to reward employee can directly affect to decrease employee performance and an efficient reward system can be a good motivator but an inefficient reward system can lead to de-motivate the employees in terms of low productivity, internal conflicts, absenteeism, high turnover, lack of commitment and loyalty, lateness and felling grievances. Several studies have been conducted previously to measure the impact of reward on employee performance level in different sectors for example public sector oriented service organization (Edirisooriya, 2014); Pharmaceutical and insurance industries (Akter, 2013); oil corporation (Ranjan & Mishra, 2017); commercial banking sector of Nigeria (Chijioke & Chinedu, 2015); banking sector of Pakistan (Khan et al. 2013); banking sector of Saudi Arabia (Jehanzeb et al. 2012). But few studies conducted on the impact of reward on employee performance in private banking sector of Bangladesh. Therefore, the overall objective of the study is to investigate the impact of different forms of rewards on the

performance level of employees, working in different private banks of Dhaka city in Bangladesh. The specific objectives of this study are:

- To find out the relationship between extrinsic rewards and employee performance level
- To find out the relationship between intrinsic rewards and employee performance level.

This article consists of five parts. At first, it reviews the previous studies related to the dimensions of reward including extrinsic and intrinsic rewards and employee performance. Next, conceptual model and hypotheses are generated based on the objectives of the study. After that, the method used to analyze the data is discussed, in other words research methodology is discussed. The data are then analyzed and hypotheses are tested using the findings. Finally, the analysis is discussed with providing a conclusion while showing the scope of future research.

2. Literature Review

2.1. Employee Performance

According to Bates & Holton (1995), performance is a multidimensional construct where a variety of factors are used to measure it. Many contemporary organizations are placing a greater emphasis on employee performance management systems as a way of generating higher levels of job performance (Grumen and Saks, 2011). It is a systematic process for improving organizational performance by developing the performance of individuals and teams. Moreover, it is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standard and competency requirements (Armstrong, 2008). An organization with strategic performance management could build job satisfaction the result of which is the increase in productivity level of employees. There are number of factors affecting the performance level of employees as they do not perform in vacuum. Organizational culture, norms, standard used at work, reward system, feedback mechanism, supervisor and colleague support etc. affect the way employees work in their organization (Bates & Holton, 1995).

2.2. Rewards

Reward can be described as the achievement and benefits received by the employees for their performance level in organization. According to Pitts (1995), reward is the benefits that arise from performing a task, rendering a service or discharging a responsibility. Investigations of several studies reveal that the popular concept 'Reward Management' is used as one of the facilitating tools that provide motivation to improve employees' performance. Moreover, level of efficiency and performance of the employees can be enhanced through well-balanced rewards program that results in substantial improvement in organization (Eisenberger et al., 1998). An effective reward system is required to retain the high performer employee in the organization and it should be provided based on their productivity (Carraher et al, 2006). The positive significant relationship that exists between reward system and employee commitment toward their performance are agreed by Malhotra: Kuvaas and Burke., (2007: 2006: 2002). Unfair distribution of reward system creates inequality among employees that the performance will get slow as a result. It plays a vital role in changing the behavior of dissatisfied employees as well as in achieving objectives related with legal compliance, labor cost control and customer satisfaction (Mehmood, 2013). The author also discussed that reward system should match with the organizational culture and the strategy in order to achieve sustainable competitive advantage. Reward can be broadly classified into two groups- namely extrinsic reward and intrinsic reward.

2.2.1. Extrinsic and Intrinsic Rewards

The performance of employees in an organization can be motivated to do innovatively through employing a fair extrinsic reward system. Several authors define extrinsic and intrinsic reward in different way. According to Ajils (1997), extrinsic reward can be termed as financial or tangible aspects that include different dimensions including -pay, work condition, fringe benefits, security, promotion, contract of service, and the work environment etc. Another author Yapa (2004) classified pay, promotion, interpersonal rewards, status, and fringe benefits as extrinsic rewards. On the other hand, intrinsic reward can be termed as psychological rewards and example includes-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 (Abiola and Ajila, 2004). The authors further stated that intrinsic reward is related with intangible aspect which is inherent in the job itself that employees enjoy as a result of attaining a goal.

The findings of the study conducted by Akter et al. (2012) revealed that 'basic pay' is the significant extrinsic reward to boost up employees' performance compared to 'performance bonus'. The authors selected 180 bank employees from twelve commercial banks randomly as a sample for collecting primary data through structured questionnaire. The analysis of this study further confirmed that employees consider challenging work the most important intrinsic factor compared to the rest of three-recognition, learning opportunity and career advancement. In another study it is emphasized that at first managers need to make sure that salaries and other basic needs are fulfilled before meeting any other secondary requirement (Latham & Ernst, 2006). The study of Deeproose (1994) argued that providing effective recognition to employees can enhance their motivation and productivity together the result of which is the performance increasing for the company. Fostering learning opportunity through training program as well as seminars, workshop, conference is more meaningful to them for effective achievement (Riasat et al. 2016).

Another finding showed the comparison between extrinsic and intrinsic reward where most people prefer non- monetary one over monetary reward (Dewhurst et al, 2009). The authors also confirmed that only monetary reward cannot motivate employees for getting superior performance. This finding is further supported by another study of Latham and Locke (2004) where the analysis of non-monetary reward shows that praise, achievement, personal growth

and responsibility are valued by employees more than cash reward. Employees also believe that overall fairness is ensured through non-monetary reward that motivates them to deliver their best performance for organization.

The banking industry requires both satisfied and motivated employees the absence of which would affect customer satisfaction level (Goodwin & Gremler, 1996). Further added is the interpersonal relationship that can be developed between banking personnel and customers which is the biggest driving force behind customer satisfaction level. An effective reward system can be one way to keep employees motivated and delighted to deliver their superior performance for their organization.

3. Conceptual Model and Hypotheses Development

Model can be defined as the complete set of variables that includes two variables namely-independent and dependent variables and they are related to each other in a systematic manner (Greenhaus et.al, 2006). In the following, the proposed research model has been presented for this study for better understanding:

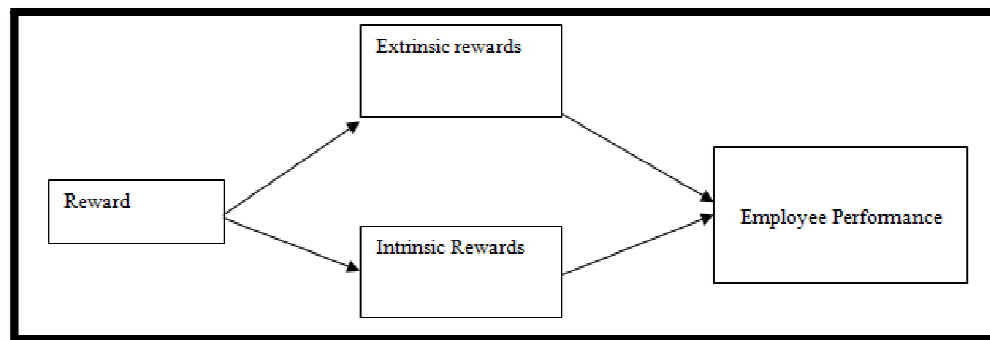


Figure 1: Conceptual Model and Hypotheses Development

In this study, reward is selected as independent variable where it includes two dimensions-Extrinsic and Intrinsic reward. The dimensions under extrinsic rewards are taken from the previous studies and they include- Basic pay, Promotion, performance bonus and work environment whereas in intrinsic reward, the dimensions include 'Challenging work, fostering learning opportunity, positive recognition, and achievement and feedback mechanism. On the other hand, the dependent variable here is employee job performance where two dimensions are used to define this variable including Productivity and job quality. According to this model, the combination of extrinsic and intrinsic reward leads to the improvement of employee productivity level as well as target achievement. This will ultimately affect job performance of employees in a positive manner.

From the above discussion, two hypotheses are formulated for this study:

- H_0 = No significant relationship exists between extrinsic rewards and employee performance.
- H_A = significant relationship exists between extrinsic rewards and employee performance.
- H_0 = No significant relationship exists between intrinsic rewards and employee performance.
- H_A = significant relationship exists between intrinsic rewards and employee performance

4. Research Methodology

This study is an exposition of the impact of rewards on performance level of employees in private banking sector of Bangladesh. A descriptive research design is adopted in this study. The methodology section focuses on the survey questionnaire, sample design and statistical analysis.

First, a structured questionnaire was developed and pretested based on a sample of respondents drawn from the target population. The target population here is the total number of employees working in different private banks of Bangladesh which are considered as the sampling units. The samples were drawn using stratified random sampling. Data were collected from employees of different private banks in Dhaka city through online survey, which was also applied in other research projects as well. The variables here are measured by using 5 points Likert scale anchored by 1= strongly disagree, 2= disagree, 3= neither disagree nor agree, 4= agree, 5= strongly agree. Both primary and secondary data are used for this study. The questionnaire designed for primary data collection consists of general information, extrinsic rewards, intrinsic rewards and employee's performance.

Second, a total of 61 employees were randomly selected from 17 private banks who are working in different positions including executive level to top. The numbers of questionnaire distributed to respondents were 94 where the number of returned one was 67. After screening out the incomplete and inconsistent questionnaire, 61 were retained for analysis.

Third, descriptive and multiple regression analysis were planned considering nine independent variables to explain the dependent variable (employee performance) identified in the literature review. Result has been analyzed by using a well-known software SPSS (statistical Package for Social Science, Version- 20).

5. Data Analysis and Findings

The data analyses section focusses on the demographic characteristics of respondents, descriptive statistics, ranking of mean scores succeeded by multiple regression analysis with hypotheses testing.

5.1. Demographic Information of Respondents

This section represents the demographic information of the respondents. They were asked to provide information related to gender, age, education and their work experiences.

Profile	Description	Frequency	Total number	Percentage	Total Percentage
Gender	Male	22	61	36.1%	100%
	Female	39		63.9%	
Age	Less than 30 years	32	61	52.5%	100%
	31-40 years	3		4.9%	
	41-50 years	26		42.6%	
	More than 50 years	0		0%	
Education	Bachelor degree	1	61	1.6%	100%
	Master's degree	60		98.4%	
Work experience	Less than 5 years	32	61	52.5%	100%
	More than 5 years	29		47.5%	

Table 1: Demographic Characteristics of Respondents

5.2. Descriptive Statistics

Descriptive statistics is used to give a narrative view of the total study related to the score of mean, standard deviation and variance. Here, table 2 represents the results of descriptive statistics in terms of arithmetic mean and standards deviations, variance, minimum and maximum values of all the variables (Dependent & Independent) in the study.

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Basic salary	61	1	5	4.20	.946	.894
Number of promotions	61	2	5	4.43	.741	.549
performance bonus	61	1	5	3.84	1.200	1.439
work environment	61	2	5	4.31	.904	.818
Challenging work	61	2	5	4.52	.648	.420
Fostering learning opportunity	61	1	5	4.38	.916	.839
Positive recognition	61	1	5	4.51	.887	.787
feedback mechanism	61	1	5	4.46	.721	.519
achievement	61	1	5	4.67	.651	.424
Productivity level	61	2	5	4.16	.734	.539
achievement of assigned target	61	2	5	4.18	.742	.550
Valid N (list wise)	61					

Table 2: Descriptive Statistics

Note: Productivity Level+ Achievement of Assigned Target= Employee Performance (Dependent Variable)

5.3. Ranking of Mean Values

Here, the total nine independent variables (Rewards) are primarily analyzed using the scores of mean and standard deviations. The variables are ranked based on their calculated mean. As illustrated in table 3, 'Achievement' generates the highest mean score ($M = 4.67$), whereas 'Performance bonus' has the lowest score ($M = 3.84$). However, the other elements generate moderate level of mean scores. It indicates that achievement and performance bonus have more significant variation compared to others.

	Rewards	Mean	SD	Rank
Extrinsic	Basic salary	4.20	.946	8
	Number of promotions	4.43	.741	5
	performance bonus	3.84	1.200	9
	Work environment	4.31	.904	7
Intrinsic	Challenging work	4.52	.648	2
	Fostering learning opportunity	4.38	.916	6
	Positive recognition	4.51	.887	3
	feedback mechanism	4.46	.721	4
	achievement	4.67	.651	1

Table 3: Ranking of Mean Scores (Descriptive Analysis)

5.4. Multiple Regression Analysis

From the literatures review, total nine independent variables have been identified that may influence the dependent variable (Employee Performance). Now, a multiple regression analysis can be run to explain dependent variable (Employee performance) which is specified as below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where, Y= Employee Performance

X₁=Extrinsic Rewards

X₂=Intrinsic Rewards

e =Residual

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	.561	.315	.291	.82626	.315	13.340	2	58	.000

Table 4: Regression Model Summary

a. Dependent variable: Employee Performance

b. Predictors (Constant): Extrinsic and Intrinsic Rewards

Table 4 shows the results of multiple regressions. The value of R² is .315 which is highly significant (P=.000) implying that about 32 percent variation in the dependent variable (employee performance) has been explained by the independent variables (extrinsic and intrinsic rewards).

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.214	2	9.107	13.340	.000
	Residual	39.597	58	.683		
	Total	57.811	60			

Table 5: ANOVA

a. Dependent Variable: Employee Performance

b. Predictors: (Constant), Extrinsic & Intrinsic rewards

Model	Unstandardized Coefficient		Standardized Coefficients	t	Sig.	95.0% confidence interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	1.612	.910		1.772	.082	.209	3.432
Extrinsic	.083	.059	.174	1.398	.167	.036	.201
Intrinsic	.187	.051	.455	3.659	.001	.085	.290

Table 6: Regression Model Coefficients

a. Dependent variable: Employee Performance

Table 6 shows the value of B (constant) indicates the average employee performance if there is no reward to be given to employees. More specifically, the value of B (Extrinsic) is .083 which indicates that employee's performance level can be increased by 8.3% when providing extrinsic rewards. Moreover, 18.7% performance level can be increased through offering intrinsic reward which is presented here as the value of B (Intrinsic). The table also shows that only the coefficient

of intrinsic rewards is highly significant ($P=.001$) to explain employee performance whereas the coefficient of extrinsic rewards is statistically insignificant. This is further confirmed through the calculated value of 't'.

5.5. Hypothesis Testing

5.5.1. Extrinsic Rewards and Employee Performance

H_0 = No significant relationship exists between extrinsic rewards and employee performance.

H_A = significant relationship exists between extrinsic rewards and employee performance.

As per the table 5, the calculated value of 't' of Extrinsic rewards=1.398. At 5% significance level, the critical value is +2.00 & -2.00. Since the calculated value of extrinsic rewards fall in between these two critical values, we cannot reject null hypothesis. Therefore, no significant relationship exists between extrinsic rewards and employee performance.

5.5.2. Intrinsic Rewards and Employee Performance

H_0 = No significant relationship exists between intrinsic rewards and employee performance.

H_A = significant relationship exists between intrinsic rewards and employee performance.

From the table 5, the calculated value of intrinsic rewards=3.659. At 5% significance level, the critical value is +2.00 & -2.00. Here, the calculated value of intrinsic rewards doesn't fall in between these two critical values, which conclude that we can reject null hypothesis. So, significant relationship exists between intrinsic rewards and employee performance.

Hypothesis	Results
H1: There exists significant relationship between extrinsic rewards and employee performance.	Not Supported
H2: There exists significant relationship between intrinsic rewards and employee performance	Supported

Table 7: Summary of Hypothesis Results

6. Discussion

The objective of undertaking this study is to explore the impact of rewards on employee performance level in private banking sector in Bangladesh. This research indicates that the dimensions of intrinsic rewards significantly affect employees' performance level in private banking sector in Bangladesh. Among the five dimensions of intrinsic rewards, 'achievement' variable is the most important driver ($M = 4.67$) whereas 'performance bonus' variable is the least important one to the employees. The fact that, the intrinsic reward is the most significant driver of employee performance level is supported by the study of Latham and Locke, (2004) which was discussed in literature review part. There are also found significant relationship among challenging work, feedback mechanism, fostering learning opportunity and positive recognition with performance level of employees. This means that employees are willing to undertake challenging tasks for nurturing their learning capability and getting positive recognition in front of colleagues make them perceive the feedback mechanism of organization as an effective one.

One form of least important variable considered by employees is 'basic salary' which is inconsistent with the findings of the study of Aktar et al. (2012). The reason behind insignificant association between 'basic salary' with performance level may be that employees are not driven by material things in their job. Rather they are driven by psychological things which indicate that they spontaneously want to deliver highest performance for their organization driven within themselves.

Managers of different private banks in Bangladesh should be careful enough in designing reward program for their employees for delivering their best performance level for organizations. It indicates that challenging work, feedback mechanism, fostering learning opportunity, positive recognition and achievement are more important for bank employees. On the contrary, basic salary, performance bonus, number of promotions and work environment are less significant factors in this regard. This research suggests that employees prefer a reward program that is more intangible, value-oriented and psychologically driven.

7. Conclusion and Scope of Future Study

In today's private banking sectors, human resource provides the basis for an organization to achieve sustainable competitive advantage. Acquiring and retaining effective and competent workforce is a challenging task for any organization. This study focuses on how rewards giving affects employee performance level in private banking sector in Bangladesh and the findings revealed that only significant relationship exists between intrinsic and employee performance level. Employees prefer to do challenging works in their organization, desire to get positive recognition from their managers, want to improve their learning through training opportunity etc. Certainly, some limitations exist in this study like those prevailing in any other empirical works.

First, the survey was carried out based on a sample of 61 respondents drawn from the employees of 17 private banks in Bangladesh. The sample size was too small and it considered only the 17 Private Banks located in Dhaka city. So, the results of the study may not be generalized to the other private banks which are not covered by this study. Also, the sample size needs to be larger for having valid results for making generalization. Therefore, future research calls for covering more respondent along with more private banks that are not included in this study

Second, this research is of descriptive (cross-sectional) nature in which data were collected during a short period of time just for one time. So, it lacks of not being able to tracking how the performance level of employee changes due to the

changes in underlying variables (e.g. fostering learning opportunity etc.). So, private bank organizations might undertake longitudinal research to visualize the vivid illustration of the situation.

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