

# **Determinants of Intrinsic and Extrinsic Rewards on Employee Performance in Kapsara Tea Factory Company Trans Nzoia County Kenya**

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## **Abstract**

The purpose of the study was to analyse the determinants of extrinsic and intrinsic rewards on employee performance. The specific objectives were: To examine the effect of employee Motivation on organizational Performance; to evaluate the effect of Employee Commitment on Organizational Performance; to determine the effect of employee training on organizational performance in Kapsara Company Kitale, Trans Nzoia County. Literature was reviewed based on the study objectives. The study was conceptualized on two main theories which were incentive and process theories. It adopted a descriptive survey research design. It targeted a population of 60 employees from various departments including; the senior management, middle level managers, supervisors and the general workers. Census technique was used to select the sample of the study hence; all the population was targeted as a sample. Questionnaires were used as the primary tools for data collection. The instruments were tested for test reliability through a pilot study at Kiptagich tea factory which did not fall within the study area. Data was collected from the field, coded and cleaned of any missing variable and categorized manually according to the questionnaire items. It was then transferred into the computer sheet and processed using the statistical package for social sciences version 20.0. The data was analysed using a regression model and presented using frequency distribution tables and percentages.

The study concluded that the most influential reward as a motivation driver is not fat salary, or additional responsibility but job security. Majority of the employees at the company are not committed as if they said get a similar job elsewhere they will leave. That employee training and development has an effect on performance especially learning on the job. Basing on the analysis of the collected data, the following recommendations were made: The Company should assure employees on job security given that many of them feel that it is through job security that they can give their best input hence performance. The company too should endeavour to ensure that there is promotion and growth, career advancement and as leading motivational drivers in the company if they have to realize optimum performance. The study entreats management to invest in a reward system that can improve on employee commitment as results show a poorly committed employee workforce. Employees who are not committed in their work cannot offer their maximum efforts for organizational growth to be realized. Management should set career advancement paths through training and development policy which seems to lack in the company. It should set aside funds to support employees who they could have trained. The company as well develops a training policy which should be aligned to the company's business strategy.

**Key words:** Reward, Extrinsic reward, Intrinsic Rewards and Training

## **1.2 Introduction**

Rewards are defined to include all types of benefits, from cash payments to working conditions (Camilleri, 2002). Organizations offer intrinsic and extrinsic rewards to members for the purpose of improving human resources outcomes (Meye & Allen, 1984). The reward system should be aligned to motivate employee performance that is consistent with the firm's strategy, attract and retain people with the knowledge, skills and abilities required to realize the firm's strategic goal, and create a supportive culture and structure (Meye & Allen, 1984). Furthermore, the literature argues that alignment of the reward system with organizational strategy helps to determine organizational effectiveness. According to Camilleri (2002), Reward systems are strategically designed when rewards are linked to activities, attributes and work outcomes that support the organization's strategic direction and that foster the achievement of strategic goals. Such linkages can lead to increased employee knowledge or skill development, flexibility, commitment, retention and productivity. Camilleri (2002), adds that a reward system is likely to have a direct effect on the direction of employees' individual attention and effort.

Intrinsic rewards are those that exist in the job itself. Examples are achievement, variety, challenge, autonomy, responsibility, and personal and professional growth. They also include status, recognition, praise from superiors and co-workers, personal satisfaction, and feelings of self-esteem (Mottaz, 1985). Intrinsic rewards increase feelings of self-esteem and accomplishment (Honig-Haftel and Martin 1993). Intrinsic rewards are derived from the content of the task itself and include such factors as interesting and challenging work, self-direction and responsibility, variety, creativity, opportunities to use one's skills and abilities, and sufficient feedback regarding the effectiveness of one's efforts (Mottaz 1985). Employees are thought to be motivated to work hard to produce quality results when they have pride in

their work, they believe their efforts are important to the success of the team, and their jobs are fun, challenging, and rewarding (Mahaney and Lederer 2006).

Extrinsic rewards, on the other hand, are external to the job itself. They comprise such elements as pay, fringe benefits, job security, promotions, private office space, and the social climate. Other examples include competitive salaries, pay raises, merit bonuses, and such indirect forms of payment as compensatory time off (Mottaz 1985, Mahaney and Lederer 2006). Firms are able to improve worker productivity by paying workers a wage premium a wage that is above the wage paid by other firms for comparable labor. A wage premium may enhance productivity by improving nutrition, boosting morale, encouraging greater commitment to firm goals, reducing quits and the disruption caused by turnover, attracting higher quality workers and inspiring workers to put forth greater effort (Goldsmith, Veum and Darity 2000). As a result, people are attracted to well-paying jobs, extend extra effort to perform the activities that bring them more pay, and become agitated if their pay is threatened or decreased (Stajkovic and Luthans 2001). Extrinsic rewards are used to show that the company is serious about valuing team contributions to quality. The monetary rewards consist of a cash bonus allocated to each team member. The team bonus would be given separately from the salary. On the other hand, team rewards must be used in ways that avoid destroying employees' intrinsic motivation to do their job. The need for continuous improvement requires employees to be innovators; devising novel solutions that improve a work process or that delight the customer. The use of extrinsic rewards that are tightly linked to team performance may teach team members to become money hungry and undermine their intrinsic interest in the work itself (Balkin and Dolan 1997).

### **1.3 Statement of the Problem**

Prior literature has remained mostly at the conceptual level in discussing this link between rewards and people outcomes. Authors agree that this should and must exist, but researchers disagree on which rewards best achieve people results goals (Allen and Helms 2001). It seems logical that some rewards are more effective than others, but propositions regarding rewards have remained largely untested and there is a recognized need for more scientific research in this area. Yet, the literature on reward program evaluation tends to focus on a limited number of programs of specific type. For example, almost all research examining the financial impact of pay systems on organizations focuses on base and/or incentive pay, while ignoring other important elements of remuneration such as recognition rewards. Additionally, almost no studies look at the joint impact of multiple rewards approaches or at the interaction between different elements of the mix of rewards. Almost all research focuses on only one or two possible outcomes of a rewards system e.g., financial impact, employee attitudes. (Fay and Thompson 2001).

In general, there seems to be agreement that rewards are important for individual outcomes. But there is not an agreement on which specific types of reward practices are more effective. It may also be noted that employees who are not motivated may not take interest in their organization, some may spread rumours about the organization, and there could be threats of

strikes, demonstrations which will create problem for the management. On the other hand, employees who are not committed may be satisfied, absent more frequently and not engaged in their work. Lack of training and development of employees in an organization could result in employee incompetency, inefficiency, ineffectiveness, inaccuracies and lack of knowledge. It is from this backdrop that this study was intended for analysing the effect of intrinsic and extrinsic rewards at Kapsara Company, on employee's performance.

## **1.4 Literature Review**

### **Organisational Performance**

Employees need and want frequent feedback on their performance. In fact, feedback is something we make use of constantly. For example, when driving, we constantly watch the road, judging how close to the center line we are driving, then how close to the shoulder. We constantly use feedback to keep us going straight down our lane. Imagine driving without getting visual feedback: Nobody ever learns new skills, or improves at anything, without feedback. Whether it's learning to ride a bike, when the feedback of falling over teaches us to not lean that way or learning to prepare a new recipe, when our gustatory feedback tells us we need to add more salt feedback is vital. It is even more vital when learning tasks and improving in something as complex as handling animals in a laboratory (Seinfeld, 2007).

People mostly misperceive the performance management to the performance appraisal; in actual performance appraisal is judging the past performance while performance management system is an ongoing process to measuring the fulfillment of objectives. Nankervis, (2004) while doing his research in an Australian institute finds that there are very few organizations which shared their organizational objectives with their employees. Most of the organization use the performance appraisal as compared to the performance management in which the focus is made on the comparison between the performance standards being made by the organization and the actual performance of the employees while no one actually compares the performance against the organizational objectives

### **Employees Motivation**

Extrinsic Motivation is related to tangible rewards such as salary and fringe benefits, security, promotion, contract of service, the work environment and conditions of service. These are what need to be done to or for people to motivate them. They are often determined at the organizational level and may be largely outside the control of the individual managers. Extrinsic motivators can have an immediate and powerful effect but will not necessary last long (Mullins, 2005; Armstrong, 2003).

Bernard & Stoner (2005) proposes the following are incentives for employees: Salary, Wages and Conditions of Service: To use salaries as an effective motivating tool, personnel managers must consider four major components of salary structures. These are the job rate, which relates to the importance the organization attaches to each job; payment, which encourages workers or groups by rewarding them according to their performance; personal or special allowances, associated with factors such as scarcity of particular skills or certain categories of information professionals or librarians, or with long service; and fringe benefits such as holidays with pay,

pensions, and so on. It is also important to ensure that the prevailing pay in other library or information establishments is taken into consideration in determining the pay structure of their organization. Akintoye (2000) asserts that money remains the most significant motivational strategy. As far back as 1911, Frederick Taylor and his scientific management associate described money as the most important factor in motivating the industrial workers to achieve greater productivity. Taylor advocated the establishment of incentive wage systems as a means of stimulating workers to higher performance, commitment, and eventually satisfaction

### **Employee Commitment on Organizational Performance**

The relationship between employee commitment and workers' performance has been studied under various disguise. Khan, (2010) investigated the impact of employee commitment (Affective commitment, Continuance commitment and Normative commitment) on employee job performance from a sample of 153 public and private and public sector employees of oil and gas sector in Pakistan. The results revealed a positive relationship between employee commitment and employees' job performance. Therefore, job performance emerged as a determinant of employee commitment. Thus, Khan, (2010) advised managers to pay special attention to antecedents of employee commitment and all the factors which foster employee commitment so as to increased employee performance and subsequently increase organizational productivity.

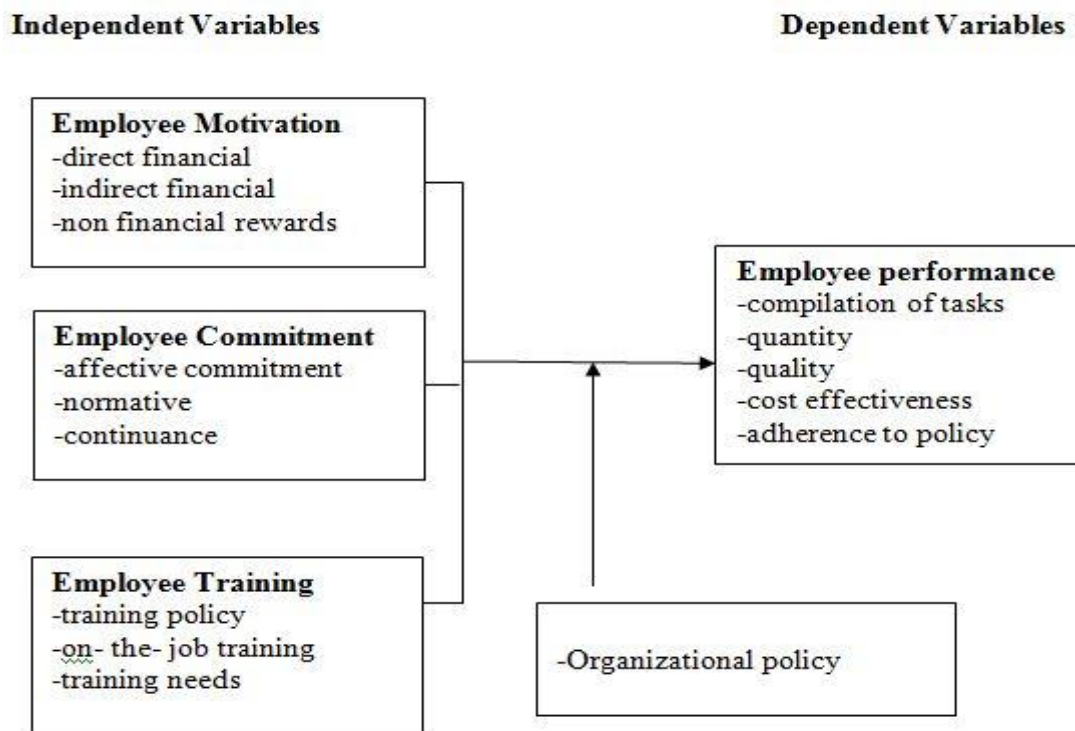
Habib, (2010) investigated the interdependency of job satisfaction and job performance, effect of employee commitment and attitude towards work on performance using a survey data collected from 310 employees of 15 advertising agencies of Islamabad (Pakistan). They found that employees having greater employee commitment perform well and employees having good attitude towards work are highly satisfied as compared to employees who are less inclined towards their work. Ali, (2010) found that there is positive relationship between corporate social responsibility and employee commitment as well as between employee commitment and organizational performance. They therefore concluded that organizations can improve their performance through employees' commitment by engaging in social activities since such activities also include the welfare of employees and their families.

### **Employee Training on Organisational Performance**

Most of the previous studies provide the evidence that there is a strong positive relationship between human resource management practices and organizational performance. (Purcell et al. 2003). According to Guest (1997) mentioned in his study that training and development programs, as one of the vital human resource management practice, positively affects the quality of the workers' knowledge, skills and capability and thus results in higher employee performance on job. This relation ultimately contributes to supreme organizational performance. According to Wognum (2001), training and development needs may occur at three organizational levels namely; (1) strategic level where needs are determined by top management while considering organizations goals, mission, strategy and problems, which need to be resolved or fixed (2) tactical level where needs are determined with middle management while considering developments needs to the coordination and cooperation

between organization units and (3) operational level where needs are determined with lower executive management and other employees while considering problems related to operations such as performance problems of individual workers and departments in subject. In order to enable an organization, formulate human resource training and development goals that will enable both formal and informal human resource training and development methods and programs create a workforce that enables effectiveness and competitiveness, it is worth giving consideration to, providing proper coordination as well as proper incorporation of the needs within the three levels.

### 1.5 Conceptual Framework



**Figure 2.1 Conceptual framework**

The conceptual framework above shows the interrelationships between variables of the study. For instance, the independent variables will be motivation which will include the motivational rewards the company uses to increase performance of the workers. This will include; direct financial rewards, indirect and non-financial rewards. Commitment of the employees will be measured in terms of affective commitment, normative and continuance commitment. Training was measured in terms of on the job training and training need. The dependent variable Employee performance was observed through: completion of tasks, quantity and quality of work, cost effectiveness and adherence to organizational policy. The moderating variables were be organizational and government policy.



## 1.4 Research Methods

The study used descriptive design to carry out the investigation. This type of design was appropriate for gathering information, summarizing, presenting and interpreting for the purpose of clarification (Orodho, 2002). The method was appropriate for the study because it assisted the researcher to produce statistical information. The study targeted the key informants like the Human Resource Manager, line managers and supervisors and junior employees who are perceived to have an understanding of the operations of the company making a total of 60 respondents. However, the researcher used census because the population (60) was too small. Census within each department was employed so as to give each employee a chance to participate in the study. This study used questionnaires as the primary instrument of data collection. The structured (closed-ended) questionnaires were used so as to get the uniform responses from given respondents. The structured questionnaires were accompanied by a list of all possible alternatives from which respondents selected the suitable answer that best described their situation by simply ticking.

## 1.5 Findings

### Descriptive statistics

**Descriptive Statistics<sup>a</sup>**

	N	Minimum	Maximum	Mean	Std. Deviation
Recognition and appreciation	8	1	1	1.00	.000
Career development	8	1	1	1.00	.000
Fat salary	8	2	2	2.00	.000
Work environment	8	1	1	1.00	.000
Promotion and growth	8	1	1	1.00	.000
Job Security	8	1	1	1.00	.000
Outside seminars	8	4	4	4.00	.000
additional Responsibility	8	2	2	2.00	.000
Valid N (list wise)	8				

The standard deviation among motivational factors was .000 meaning insignificant relation between the variables. Thus, the null hypothesis retained that there is no significant relationship between motivation and performance.

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
My company has a training policy applicable to all employees	50	1	5	3.68	1.186
The training is linked with business strategy	50	1	5	2.20	1.107
There are job aids/resources to support employees trained	50	1	5	3.02	1.270
On the job learning is used by colleagues	50	1	4	1.64	.802
Valid N (list wise)	50				

From the standard deviation ranging from 0.802-1.1, the relationship among training drivers were significant hence, the alternative hypothesis was adopted that, that, they were a significant relationship between training and performance.

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
If another company offers me more money, I will change job	50	1	3	1.90	.580
I would recommend a friend to join the company	50	1	5	3.16	1.299
I feel like am making some contribution towards organizational well being	50	1	5	2.82	1.380
I am not willing not willing to do more than my job	50	1	4	2.24	1.080
Valid N (listwise)	50				

The standard deviation was significant since it was beyond .580 hence null hypothesis was dropped and the alternative hypothesis was taken hence, there is a significant relationship between commitment and performance.



## **Summary of findings**

The study, effect of determinants of intrinsic and extrinsic rewards on employee performance was undertaken by the researcher, with sole aim of establishing a relationship between reward system and employee performance at the workplace. The study was conducted with the workers of Kapsara tea factory constituting the population and a sample size of 60 drawn from its departments. The mixed methodology approach thus both quantitative and quantitative designs were employed in conducting the study. The two were considered because the merits of one compensate for the weaknesses of the other. Both types are valid and useful but not mutually exclusive. The bottom line is both methods ensured a greater understanding of a population. The data collection technique was the case study method alongside the questionnaire as the instrument used in collecting data.

Respondents who participated in the survey were asked varied questions in relation to effect of employee motivation; employee commitment and employee training and development. Data collected and analyzed indicated that, if employees are given the relevant reward component. It was found out that was observed that various motivational factors affected employees' performance differently. Majority of the employees strongly agreed that job security motivated them the most as opposed to general believe that fat pay necessarily motivates employees the most. Promotion and job growth also came out as a good motivator towards performance and outside seminars did not add much value to performance. It was observed that majority of the employees agreed that if they were offered more money by another company they will quit, with many more saying that they could not recommend a friend for a job at the company. While more than a half of the respondents said that they were not willing to do more than their job description demanded. This showed a staff not committed to their job meaning that had they been committed, the company performance could be better. On training, it was found out that the company did not have a training policy, though if any training took place it was linked with the company business strategy. The respondents disagreed to the company having set a side resource to support those who happen to train and that majority of them trained on-the-job. This shows that the company had not prioritized on training as a motivational tool as such.

## **1.6 Conclusion**

The study concluded that: The most influential reward as a motivation driver is not fat salary, or additional responsibility but job security. Majority of the employees at the company are not committed as if they said get a similar job elsewhere they will leave. That employee training and development has an effect on performance especially learning on the job.

### **1.6.1 Recommendations**

Basing on the analysis of the collected data, the following recommendations were made: The company should assure employees on job security given that many of them feel that it is through job security that they can give their best input hence performance. The company too should endeavour to ensure that there is promotion and growth, career advancement and as leading motivational drivers in the company if they have to realize optimum performance.

The study entreats management to invest in a reward system that can improve on employee commitment as results show a poorly committed employee workforce. Employees who are not committed in their work cannot offer their maximum efforts for organizational growth to be realized. Management should set career advancement paths through training and development policy which seems to lack in the company. It should set aside funds to support employees who they could have trained. The company as well develops a training policy which should be aligned to the company's business strategy

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