

Impact of Intrinsic and Extrinsic Factors on Employee Performance in Nepalese Organizations

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Abstract

This study examines the impact of intrinsic and extrinsic factors on employee performance in Nepalese organizations. Employee performance is the dependent variable. The selected independent variables are bonus, recognition, promotion, salary empowerment and career growth opportunities. The primary source of data is used to assess the opinions of the respondents regarding the impact of extrinsic and intrinsic factors on employee performance. This study is based on primary data with 121 observations. To achieve the purpose of the study, structured questionnaire is prepared. The correlation coefficients and regression models are estimated to test the significance and importance of intrinsic and extrinsic factors on employee performance in Nepalese organizations.

The study showed that salary has a positive impact on employee performance. It means that increase in salary leads to increase in employee performance. Similarly, bonus has a positive impact on employee performance. It indicates that increase in bonus leads to increase in consumer employee performance. Moreover, recognition has a positive impact on employee performance. It means that increase in recognition leads to increase in employee performance. Likewise, empowerment has a positive impact on employee performance. It shows that increase in empowerment leads to increase in employee performance. Similarly, career growth opportunities have positive impact on employee performance. It shows that better the career growth opportunities, higher would-be the employee performance. Further, promotion has a positive impact on employee performance. It shows that higher the promotion, higher would be the employee performance.

Keywords: salary, recognition, career growth opportunities, promotion, bonus, employee performance.

1. Introduction

Osterloh and Frey (2000) defined an individual to be extrinsically motivated when employee needs are indirectly met using monetary rewards. Similarly, Armstrong *et al.* (2011) stated that performance is defined as behavior that accomplishes results. Likewise, Froese (2019) defined rewards and compensation are a crucial aspect that greatly encourages employee's acuity towards their effort and also provides a state in mind of contribution to the overall development and growth of the organization. Similarly, employee's performance can be defined as the ability of the worker to achieve their personal or organizational goal by using the organizational resources

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professionally and effectively (Gupta and Shaw, 2014). Likewise, McArthur and Baron (1983) defined motivation as a set of processes concerned with the force that energizes behavior and directs it towards attaining goals. Likewise, Hafiza *et al.* (2011) stated that working conditions, worker and employer relationships, training and development, job security and company's overall guidelines and procedures for rewarding employee have an impact on employee performance.

Similarly, employee's performance can be defined as the ability of the worker to achieve their personal or organizational goal by using the organizational resources professionally and effectively (Gupta and Shaw, 2014). Likewise, employees are expected to fulfill organizations need and objectives (Arokiasamy *et al.*, 2010). Furthermore, Markova and Ford (2011) defined that the real success of companies originate from employees' willingness to use their creativity, abilities, and know-how in favor of the company. According to Ledford (2014), with the help of effective performance, the functional area will be improved, and a competitive advantage will be available for the company that will help to attract the maximum number of customers and it will also ensure the profitability in the market. Furthermore, rewards and compensation are a crucial aspect that greatly encourages employee's acuity towards their effort and provides a state in mind of contribution to the overall development and growth of the organization (Froese, 2019).

Luthans (2000) found types of rewards which are financial (extrinsic) and non-financial (intrinsic) reward and both can be utilized positively to enhance employee's performance. Furthermore, Ojokuku and Sajuyigbe (2009) found that financial incentives (pay satisfactions dimensions) have significant effect on employee's performance. Moreover, Durant *et al.* (2006) discovered financial reward is not the most motivating factor and financial incentives have a de-motivating effect among employees. Likewise, Nelson (2004) noted that praise and recognition are the most efficient intrinsic reward that enhance employee's performance.

Schaufeli *et al.* (2002) found the importance of rewards to combat burnout, which is typically experienced by most employees on the job. Likewise, Ali and Ahmed (2009) confirmed that there is a statistically significant relationship between reward and recognition respectively, also motivation and satisfaction. According to Siti-Nabiha *et al.* (2012), performance of service desk is critical to an organization. Similarly, managing human resource is one of most important tasks that get highest consideration in the organization and as a result, employees became the most valued asset of

an organization (Delaney and Huselid, 1995). Likewise, Reward system can be narrated as a jacket of all interconnected action and mechanism that are assembled to ensure the betterment of an organization and for the involved employees of that institution (Armstrong, 2008).

Adeoti and Isiaka (2006) found that intrinsic rewards such as responsibility, personal growth, recognition, achievement, and autonomy leads to better performance and proper feedback and encouragements make jobs more meaningful. Furthermore, Özutku (2012) found that extrinsic rewards exhibit affirmative impact on employee performance. Similarly, Riasat *et al.* (2016) revealed that there is a significant relationship between extrinsic rewards and work satisfaction. The study concluded that organization should focus on extrinsic rewards, which a most important factors for job satisfaction and better performance and salary should be sufficient and reasonable. Furthermore, Datta (2012) found that rewards systems, programs and practices influence the actions of people.

Reward systems are also considered as tools for raising employees' awareness and add value to the employees work according to their position to the organization (Pratheepkanth, 2011). Likewise, reward systems play an indispensable performance in case of expanding the number of awards of an employee and modify the manners of a displeased employee. It also include the legitimate procedures of reward system also raise high contentment of an employee towards job (Mehmood, 2013). Furthermore, Deeprase (1994) revealed that reward system causes satisfaction of employee, which directly influences the performance of the employee and rewards refer to all form of financial returns and tangible services and benefits and employee receives as part of an employment relationship. Similarly, Reward is the benefits that arise from performing a task, rendering a service, or discharging a responsibility (Agwu, 2013). Likewise, Adeoti and Isiaka (2006) found that intrinsic rewards such as responsibility, personal growth, recognition, achievement, and autonomy leads to better performance and proper feedback and encouragements make jobs more meaningful. Likewise, Good & Carin (2004) showed that performance measurement covers five dimensions of performance.

Iberia *et al.* (1994) found that job involvement was highly related to career growth, job satisfaction, and personal commitment towards performing task. Furthermore, Zia-ur-Rehman *et al.* (2010) revealed that job rewards are a strong determinant of job performance. Job performance is related to extrinsic rewards for employees than intrinsic rewards. Likewise, Saks (2006)

revealed that recognition and rewards are significant antecedents of employee engagement. Similarly, Tausif (2012) found that non-financial rewards are the strong determinant of job satisfaction for the employees and employee performance of public educational sector of Pakistan. Further, Aktar *et al.* (2012) found that there is a statistically significant and positive relationship between all independent variables; recognition, learning opportunity, challenging work, career advancement, training and development basic salary and performing loans with the dependent variable; employee work performance.

In the context of Nepal, Baniya (2004) revealed positive consequences of providing development opportunities to employees improved performance, increased productivity, enhanced loyalty towards organization, and increased motivation among employees' and negative consequences are demand for increment in salary, additional incentives and facilities, promotion, and demonstration of over confidence in work, and tendency to leave job. Furthermore, Chapagain (2011) revealed that employees' participation is an important determinant of job satisfaction and performance. The study also found increased employees' participation makes a positive effect on job satisfaction of Nepalese banking employees. Likewise, Gautam (2011) showed a positive improvement in building cooperation and trust between employers and employees.

Khadka (2018) concluded that there is a positive and significant relationship between employee retention and all seven retention factors such as employee benefits, recruitment and selection, job assignment and opportunities, performance appraisals, training and development, work environment and leadership support. Furthermore, Kirkman (2004) showed that there is a significant and positive impact of empowerment implementing on employees' performance. Likewise, Dialoke and Nkechi (2017) revealed that there is a positive and significant correlation between career development and the performance of the non-academic staff of the university. Similarly, Rayamajhi *et al.* (2012) revealed that there is a positive relationship between training and motivation of the employees. Likewise, Raju (2013) showed that positive relationship between formalization and job satisfaction. Furthermore, the banking and financial services sector began to hire talented people from competitors within the industry by offering better salary, career growth opportunities, training, and benefits as retention strategies (Bista and Regmi, 2016).

The need and expectations of employees are changing. Hence, it

is essential for organizations to understand the factors triggering intent to leave and to develop appropriate strategies to retain talent (Ramlall, 2003). According to Sapkota *et al.* (2020), to maintain well satisfied and high performing employees, organizations need to incorporate factors such as training and development program, employee and management relationships, reward and remuneration system, autonomy, job security, internal and external communications, and concern towards employees' family responsibilities.

The above discussion shows that the empirical evidence varies greatly across the studies on the impact of intrinsic and extrinsic factors on employee performance. Though there are above mentioned empirical evidence in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, to support one view or the other, this study has been conducted.

The main purpose of the study is to analyze the impact of intrinsic and extrinsic factors on employee performance in Nepalese organizations. Specifically, it examines the impact of bonus, recognition, promotion, salary empowerment and career growth opportunities on employee performance in Nepalese organizations.

The remainder of this study is organized as follows. Section two describes the sample, data and methodology. Section three presents the empirical results, and the final section draws the conclusion.

2. Methodological aspects

The study is based on the primary data. The data were gathered from 121 respondents through questionnaire. The respondents' views were collected on salary, bonus, promotion, career growth opportunities, empowerment, and employee performance. The study used descriptive and casual comparative research design.

The Model

In the above linear regression model, the dependent variable is employee performance and independent variables are empowerment, recognition, career growth opportunities and salary, bonus and promotion which are tested on employee performance.

$$EP = \beta_0 + \beta_1 S + \beta_2 P + \beta_3 B + \beta_4 E + \beta_5 R + \beta_6 C + \mathcal{E}$$

Where,

C = Salary

P= Promotion

B= Bonus

E= Empowerment

R = Recognition

C= Career Growth Opportunities

EP= Employee performance

Salary was measured using a 5-point Likert scale where respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “The salary is satisfactory in relation to the nature of my job”, “The incentives provided by the organization give me sense of accomplishment” and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.857$).

Promotion was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “Promotion helps me to fulfill my basic needs”, “Organization provides promotion on the basis of performance of employees” and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.820$).

Recognition was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “I feel being recognized employee as working in my organization.”, “The criteria for the recognition programs have been clearly explained to all employees”, and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.854$).

Empowerment was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “Employee suggestions are given equal priority in decision making.”, “The organization provides flexible work hours to accommodate my personal needs.”, and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.821$).

Career growth opportunities was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “Employees having skills are provided with opportunities to

prove themselves.”, “My colleagues/friends influence me to do shopping through e-pharmacy”, and so on. The reliability of the items was measured by computing the Cronbach’s alpha ($\alpha = 0.792$).

Employee performance was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include “I am highly motivated by my supervisor to perform fairly in my work.”, “I am committed to work hard to achieve the organizational goals.”, and so on. The reliability of the feature was measured by computing the Cronbach’s alpha ($\alpha = 0.829$).

The following section describes the independent variables used in this study along with hypothesis formulation.

Salary

Salary is a payment or service delivery made by employees which is generally paid regularly per month (Mulyadi, 2014). Similarly, salary has a significantly positive effect on organization commitment (Folger and Konovsky, 1989). Likewise, the study showed in improving motivation. higher salary leads to increased employee motivation and commitment (Ghiselli *et al.*, 2001). Furthermore, Hameed *et al.* (2014) revealed that salary has a positive influence on employee performance. Similarly, the effect of work environment, salary level, and coworker relationship and are important to increase employee motivation (Robbins, 2003). Likewise, Donni *et al.* (2013) stated that salary is a substitute for services that have been provided by workers in their work. Salary has a positive effect on employee motivation. Furthermore, Mulyadi (2013) claimed that salary as a payment for the delivery of services performed by employees. Likewise, the employees with high job performance and level of work efficiency, organization commitment and willingness to sacrifice for the organization, making it more difficult for them to leave their jobs (Bartle *et al.*, 2002; Parker and Kohlmeier, 2005). Based on it, this study develops the following hypothesis:

H₁: There is a positive relationship between salary and employee performance.

Promotion

Promotion is defined as the internal mobility within the company by changing position vertically. Lazear (1986) defined promotion as the movement of an employee upward in the hierarchy of the organization that leads to enhancement of responsibility and rank. Similarly, promoting

employee from lower level to the upper level creates a feeling of content among the employees. It improves their job satisfaction, performance, and motivation by providing greater income, status and responsibilities (Rupia, 2012). There is a positive and direct linkage between job performance and promotional opportunities (McCausland *et al.*, 2005). Employees who have been promoted feel more satisfied and improve their performance in higher expectations for future promotions (Paarsch and Shearer, 2000). Likewise, Tessema and Soeters (2006) concluded that there is a positive association between promotion practices and employee performance. Promotions bring higher payment and better status, as well as the feeling of motivation for hard work and loyalty (Honig and Martin, 1993). Based on it, this study develops the following hypothesis:

H₂: There is a positive relationship between promotion and employee performance.

Bonus

Performance bonus is a monetary reward that is given by employer to employees based on their performance appraisal and organization's profit (LaBelle, 2005). Similarly, Gill *et al.* (2013) concluded that exposing workers to a compensation scheme based on random bonuses makes them cheat more but has no effect on their productivity. In the contrary, Chiang and Birtch (2011) concluded that performance bonuses give an effective positive impact to individual or team performance. Jean *et al.* (2017) concluded that employment benefits such as allowances, incentives and bonuses have a positive and significant effect on employee performance. Küster and Canales (2011) found that there is a significant and positive relationship between compensation strategies (pay, bonuses, incentives) and employee performance. Based on it, this study develops the following hypothesis:

H₃: There is a positive relationship between bonus and employee performance.

Empowerment

Empowered employees are committed, loyal and conscientious (Honold, 1997). Similarly, Raquib *et al.* (2010) argued that empowerment is not only having the freedom to act, but also having higher degree of responsibility and accountability which indicated that management must empower their employees so that they can be motivated, committed, satisfied and assist the organization in achieving its objectives. Likewise, Pieterse *et al.* (2010) suggested that there are seven dimensions of employee empowerment and that included power, decision-making, information, autonomy, initiative and

creativity, knowledge and skills, and responsibility. In addition, According to Nick *et al.* (1994), employee empowerment will lead to improving productivity, performance and job satisfaction. Furthermore, Kirkman *et al.* (2004) showed that there is significant and positive impact of empowerment implementing on employees' performance. Based on it, this study develops the following hypothesis:

H₄: There is a positive relationship between empowerment and employee performance.

Recognition

Oosthuizen (2001) stated that recognition is among the function of managers to motivate the employees successfully and influence their behavior to achieve greater organizational efficiency. Similarly, Merino and Privado (2015) surveyed seventeen thousand workers and seventy one percent of them said they were actively looking for new jobs, the main reason being the lack of recognition in their current positions. Likewise, Mann and Dvorak (2016) concluded that workplace recognition motivates, provides a sense of accomplishment, and makes employees feel valued for their work which helps to boost their performance. Manager recognition has indeed been known to increase employees' well-being, willingness to learn, job performance, and intrinsic motivation (Appelbaum and Kamal, 2000). Based on it, this study develops the following hypothesis:

H₅: There is a positive relationship between recognition and employee performance.

Career growth opportunities

Nasidi *et al.* (2020) stated that the career path ladder through training and development needs to be given importance by management which will lead to timely opportunities for growth and development. Similarly, Siddiqui and Sahar (2019) found that career development opportunities and training improves service accuracy and thereby impacts service performance and employee engagement. Likewise, Dialoke and Nkechi (2017) revealed that there is a positive and significant correlation between career development and the performance of the non-academic staff of the university. In addition, Winda *et al.* (2017) concluded that career development has a significant and positive effect towards employee performance. Furthermore, Saina and Twei (2015) concluded that trainings and career development has a positive and significant impact on their performance. Based on it, this study develops the following hypothesis:

H_6 : There is a positive relationship between career growth opportunity and employee performance.

3. Results and discussion

Correlation analysis

On analysis of data, correlation analysis has been undertaken first and for this purpose, Kendall's Tau correlation coefficients along with means and standard deviations have been computed, and the results are presented in Table 1.

Table 1

Kendall's Tau correlation coefficients matrix

This table presents Kendall's Tau coefficients between dependent and independent variables. The correlation coefficients are based on 121 observations. The dependent variable is EP (employee performance). The independent variables are S (Salary), B (Bonus), R (Recognition), E (Empowerment) and P (Promotion).

Variables	Mean	SD	S	B	R	C	E	P	EP
S	3.657	0.832	1						
B	3.652	0.810	0.629**	1					
R	3.656	0.807	0.584**	0.65**	1				
C	3.714	0.740	0.591**	0.60**	0.64**	1			
E	3.687	0.786	0.603**	0.62**	0.56**	0.66**	1		
P	3.692	0.789	0.560**	0.604**	0.62**	0.65**	0.627**	1	
EP	3.751	0.790	0.480**	0.49**	0.49**	0.55**	0.55**	0.54**	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

Table 2 shows the Kendall's Tau correlation coefficients of dependent and independent variables for Nepalese organizations. The correlation matrix indicates that salary is positively correlated to employee performance. It implies that better salary leads to increase in employee performance. The result also reveals that promotion is positively correlated to employee performance. It implies that higher promotion opportunities in the organization leads to increase in employee performance. Moreover, bonus is positively correlated to employee performance. It implies that high bonus system in the organization enhances employee's performance. Furthermore, empowerment is positively correlated to employee performance indicating that valuing employees' suggestions and ideas about their work in the organization leads to increase in employee performance. Similarly, the result also shows that recognition is positively correlated to employee performance. It indicates that acknowledging employees before their peers for desired behavior would enhance employee

performance. Moreover, career growth opportunity is positively correlated to employee performance. It implies that better the career growth opportunity, higher would be the employee performance.

Regression analysis

Having indicated the Kendall’s Tau correlation coefficients, the regression analysis has been carried out and the results are presented in Table 2. More specifically, it presents the regression results of salary, promotion, recognition, bonus, career growth opportunity, empowerment on employee performance in Nepalese organizations.

Table 2

Estimated regression results of salary, promotion, recognition, bonus, career growth opportunity, empowerment on employee performance in Nepalese organizations

The results are based on 121 observations using linear regression model. The model is $EP = \beta_0 + \beta_1 S + \beta_2 P + \beta_3 B + \beta_4 E + \beta_5 R + \beta_6 C + \epsilon$ where the dependent variable is EP (employee performance) The independent variables are S (Salary), B (Bonus), R (Recognition), E (Empowerment) and P (Promotion).

Model	Intercept	Regression coefficients of						Adj. R_bar ²	SEE	F-value
		S	B	R	C	E	P			
1	1.779 (6.612) **	0.539 (7.521) **						0.316	0.653	56.560
2	1.648 (6.099) **		0.576 (7.977) **					0.343	0.641	63.63
3	1.414 (5.556) **			0.640 (9.407) **				0.422	0.601	88.493
4	1.272 (4.394) **				0.668 (8.734) **			0.386	0.619	76.28
5	1.245 (4.863) **					0.680 (10.012) **		0.453	0.585	100.249
6	1.314 (5.037) **						0.660 (9.554) **	0.4290	0.597	91.282
7	1.417 (5.098) **	0.272 (2.622) *	0.367 (3.451) **					0.374	0.625	36.828
8	1.216 (4.567) **		0.222 (2.192) *	0.472 (4.639) **				0.440	0.591	48.063
9	0.977 (3.510) **			0.413 (4.345) **	0.341 (3.290) **			0.466	0.578	53.312
10	0.839 (3.040) **				0.317 (3.257) **	0.471 (5.137) **		0.494	0.562	59.47
11	0.941 (3.615) **					0.418 (4.185) **	0.344 (3.460) **	0.499	0.559	60.729

Notes:

- i. Figures in parenthesis are t-values.
- ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
- iii. Employee performance is dependent variable.

The regression results show that the beta coefficients for salary are positive with employee performance. It indicates that salary has a positive impact on employee performance. This finding is in similar with the findings

of Mehran (1995). Furthermore, the beta coefficients for promotion are positive with employee performance. It indicates that promotion has a positive impact on employee performance. This finding is consistent with the findings of Honig and Martin (1993). Moreover, the beta coefficients for bonus are positive with employee performance. It indicates that bonus has a positive impact on employee performance. This finding is similar to the findings of Jean *et al.* (2017). Furthermore, the beta coefficients for empowerment are positive with employee performance. It indicates that empowerment has a positive impact on employee performance. This finding is consistent with the findings of Kirkman *et al.* (2004). In addition, the beta coefficients for recognition are positive with employee performance. It indicates that recognition has a positive impact on employee performance. This finding is similar to the findings of Mann and Dvorak (2016). Similarly, the beta coefficients for career growth opportunities are positive with employee performance. It indicates that career growth opportunities have positive impact on employee performance. This finding is similar with the findings of Winda *et al.* (2017).

4. Summary and conclusion

Managing human resource is one of most important tasks that get highest consideration in the organization and as a result, employees became the most valued asset of an organization. Organizations use reward system as an essential instrument in stimulating employee's enthusiasm in the positive way to build up work turnout and help to attain the expected organizational goals to work out the reward system.

This study attempts to examine the impact of intrinsic and extrinsic factors on employee performance in Nepalese organizations. The study is based on primary data with 121 observations.

The study also showed that salary, recognition, career growth opportunities, promotion, bonus has positive effect on employee performance. The study concluded that that salary, recognition, career growth opportunities, promotion, bonus has positive effect on employee performance have a significant role in increasing employee performance. The study also concluded that the most influencing factor is empowerment followed by promotion and recognition that explains the employee performance.

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